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I *Information*

Court of Auditors

Annual report concerning the financial year 1978 accompanied by the replies of the institutions 1

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I

(Information)

COURT OF AUDITORS

ANNUAL REPORT

concerning the financial year 1978
accompanied by
the replies of the institutions
transmitted to
the authorities responsible for giving discharge
and to
the other institutions
on 30 November 1979

in accordance with Article 84 of the Financial Regulation of 21 December 1977

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Introduction

Presentation of the report

1. The second Annual Report of the European Court of Auditors concerns the accounts for the financial year 1978 for which it has the responsibility of audit, with the exception of those relating to the operational budget of the ECSC, the report on which is presented separately. The Annual Report is divided into two parts.

PART I

2. The first part of this report deals with the execution of the general budget of the European Communities and covers the budgets of the European Parliament, the Council, the Commission, the Court of Justice, the Economic and Social Committee, the Office for Official Publications and the administrative budget of the ECSC. Part I also includes summaries of the reports on the accounts of the Euratom Supply Agency, the European Centre for the Development of Vocational Training, the European Foundation for the Improvement of Living and Working Conditions and the European Schools which have been sent to the respective governing bodies in accordance with the appropriate regulations.

3. The budget accounts for the year ended 31 December 1978 show total expenditure of 14 147 029 261 EUA, total income of 14 188 647 899 EUA and a balance of 41 618 638 EUA which is to be carried forward to 1979. The consolidated balance sheet at 31 December 1978 shows total assets and total liabilities of 4 159 769 183 EUA.

PART II

4. The second part of the report concerns the management of the European Development Funds. The Commission provides the management of the accounts outside the budgetary framework.

The drafting of the Annual Report

5. In accordance with the terms of the Financial Regulation [1] the Court sent its comments on the accounts for 1978, on which this report is based, to the institutions by 15 July 1979. The comments included in Parts I and II were sent to the Commission. Those included in Chapters 1, 8 and 9 of Part I were also sent to the European Parliament, the Council, the Court of Justice and the Economic and Social Committee.

6. The replies of all the institutions to whom the Court's comments were sent were received by 31 October. During the following month the Court drew up this report in the light of the replies to its comments.

The replies are set out in full in Annexes II to VI to this report. As last year, in order to help the discharge authority and other readers in their examination of the report, the Court has also inserted the relevant replies into the text of the various chapters.

7. Annex I to this report consists of a statistical survey, including diagrams, which illustrates aspects of the financial affairs of the Communities.

[1] OJ No L 356, 31. 12. 1977, p. 1.

Part I

CHAPTER 1 — GENERAL COMMENTS

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THE YEAR'S WORK

1.1. 1978 was the first complete year of operation of the Court of Auditors. As a new institution, a good deal of the Court's attention was directed to recruitment and to the development of its working methods and work programme. Contacts were established not only with the Community institutions but also with the national audit bodies and other competent national departments. A liaison committee has been set up consisting of representatives of the Court and of the national audit bodies. This meets from time to time in Luxembourg under the chairmanship of the Court and discusses questions of mutual interest. One of the most important tasks of the Court is to carry out on-the-spot audits in the Member States in liaison with the appropriate national authorities. 1978 saw the launching of such audit visits by the Court. These have proved essential to the Court in discharging its responsibilities under the Treaty and it would like to express its thanks to the national audit bodies and the competent authorities in all the Member States for their continuing cooperation in ensuring the success of these arrangements.

1.2. In addition, the Court participated in a number of on-the-spot audits carried out by the Commission. The Court would like to thank the Commission for its cooperation in this field. The Court would also like to place on record that the assistance of the institutions made it possible to meet the deadlines laid down in the Financial Regulation for the presentation of this Annual Report.

The Commission has commented as follows on paragraphs 1.1 and 1.2

The Commission is gratified at the climate of mutual confidence that has been established between itself and the Court of Auditors. Its replies were drafted in the spirit of constructive collaboration. They are the result of a free and open dialogue which was designed to highlight facts objectively for the Court of Auditors and inform the discharge authority on matters raised by the Court.

In the rare instances where the views of the Court and the Commission diverged, the Commission has carefully weighed the arguments it used in stating its position. The Commission is convinced that the detailed discussion procedure followed this year will permit the publication of a report, together with the replies of the institutions but without comment, replication or rejoinder.

The consultations to which the Commission has referred were successful in reducing the number of remarks which the Court felt it necessary to make. Nevertheless, the Court does not think that these discussions totally eliminated the need for remarks. Moreover, the Court wishes to emphasize that, where it has not made remarks upon the replies of the Commission, this does not necessarily mean that there is no disagreement. In the presentation made in the pages which follow, the objective of the Court is to make the reader aware of all the issues involved and where these seem clear without further remarks the Court has not made any even when its views differ from those of the appropriate institution. When remarks have been made on the replies of the institutions no additional material of substance has been added to the Court's original comments.

GENERAL POINTS RELATING TO THE 1978 ACCOUNTS

Application of the EUA

1.3. In 1977 the general budget and the revenue and expenditure accounts of the European Communities were drawn up in IMF units of account (u.a.). National currencies were converted into u.a. at fixed rates of exchange. In accordance with Articles 10 and 63 of the Financial Regulation of 21 December 1977, however, the general budget and the accounts for the financial year 1978 were expressed in European units of account (EUA). 1978 is thus the first year in which all of the accounts of the Communities are drawn up in EUA, the value of which, expressed in national currencies, fluctuates in accordance with current market rates of exchange.

1.4. A proposal for a Regulation on the procedure for applying the EUA to legal acts adopted by the institutions of the European Communities was submitted by the Commission to the Council on 6 October 1976. Although the EUA has been applied in the general budget from 1 January 1978, no Regulation has yet been adopted by the Council setting out rules for applying the EUA in the execution of the budget and in drawing up the accounts. Consequently, provisional measures, which have no legal basis, have had to be adopted by the institutions. Particular problems arose in respect of appropriations entered in the 1977 budget and carried forward to 1978 and in the choice of rates of exchange to be applied in executing the 1978 budget. The absence of definitive rules led to different practices being adopted by different institutions. The Court considers the present situation unacceptable from the point of view of legality and urges the rapid adoption of an Implementing Regulation. The transition to the EUA is dealt with in more detail in Chapter 11.

Reply of the Council to paragraph 1.4

1. The Council forwarded joint guidelines to the European Parliament on 24 July 1978 as part of the conciliation procedure. This procedure has not yet been completed.

2. The Regulation on the procedure for applying the EUA to legal acts adopted in the customs sphere was adopted by the Council on 23 November 1978 (OJ No L 333, 30. 11. 1978).

3. It should be recalled that the Council approved at its meeting on 21 December 1977 a text entered in the minutes of that meeting establishing the arrangements applicable pending the entry into force of the Regulation referred to in point 1.

Reply of the Economic and Social Committee to paragraph 1.4

The Committee agrees with the Court of Auditors that a Regulation implementing the European unit of account should be adopted as soon as possible.

Under-utilization of payment appropriations

1.5. In the context of the discharge procedure for 1977 concern was expressed about under-spending of payment appropriations. The accounts for 1978 show that the problem has grown worse in a number of sectors, particularly the Guidance Section of the EAGGF, the Social Fund, the Regional Fund and the energy, research and investment activities with under-spending generally exceeding 50 % of the available appropriations. Annex I to this report contains a number of tables setting out both the overall situation for 1978 and an historical survey for the most

important sectors concerned. In addition, reference is made to the problem in the relevant chapters of the report.

1.6. The under-utilization of payment appropriations on the present scale is a very serious matter since it calls into question both the basis on which the budgetary estimates were drawn up and the soundness of the financial management. Part of the problem can be attributed to the practice of including in the budget provision for policies which have yet to be launched and which frequently become operational so late in the year that little or no expenditure is possible in that year. But even where policies have been in operation for a number of years (e.g. the Guidance Section, the Social Fund and the Regional Fund) under-utilization of payment appropriations is a constant feature. This is particularly disturbing in view of the widespread introduction of differentiated appropriations in these sectors. The principle objective in introducing differentiation, i.e. separate appropriations for commitment and payment, was to enable the amount of payment appropriations entered into the budget for the year in question to be reduced to the absolute minimum necessary to meet commitments falling due for payment in that year without restricting the Commission's ability to commit expenditure up to the predetermined level. Experience has shown that this objective has not been attained: the situation as regards under-utilization of payment appropriations is just as serious as it was under the former regime of non-differentiated appropriations.

1.7. The Court recognizes that the fault does not lie wholly with the Commission: part of the blame is also attributable to slowness on the part of the Member States in submitting satisfactory claims for payment. The Commission should have had sufficient experience by now to be in a position to make more realistic estimates of its actual expenditure needs.

Reply of the Commission to paragraphs 1.5 to 1.7

The Court of Auditors' reference to the under-utilization of payment appropriations and the underlying problems of delay in executing policies, presenting claims and clearing these for payment touches on a widespread and intractable problem which the Commission is determined to remedy by all the means in its power.

The causes of delays are multiple and complex and, as the Court recognizes, responsibility devolves in large measure on the other agencies involved and in fact cannot properly to any significant extent be laid at the door of the Commission.

The specific problems arising over the implementation of payment appropriations in 1978 are discussed in the Commission's report on 'the financial situation of the European Communities at 31 December 1978' (COM(79) 125), and, wherever possible, the Commission has reacted to the difficulties and delays experienced by acting to accelerate payments, or by making more prudent estimates of future cash needs, in the various fields concerned.

In general, the emphasis of the Commission's approach to this matter has been on improving (e.g. by more liberal rules for issuing advances) the procedures involved and enabling or encouraging those responsible to deal more quickly with the submission and clearance of claims. It is important, however, to realize that for large areas of expenditure the Commission does not exercise a decisive influence on the speed of implementation of the budget.

If, for reasons outside its control, the steps taken do not lead to the level of improvement hoped for, the Commission agrees with the Court that it may be necessary to place still more emphasis on abating estimated cash needs on the basis of past performance.

It is evident, when all is said and done, that certain difficulties will persist in this field. For example, the Commission cannot responsibly underprovide for the expected cost in cash of a given policy in its budget proposals merely because difficulties could arise in generating the payments resulting from the policy concerned.

THE AUDIT OF THE EUROPEAN COAL AND STEEL COMMUNITY

1.8. The audit of the ECSC, the drawing up of reports by the Court and the subsequent discharge procedure are subject to rules which differ in certain respects from those applying to the EEC. Since interest was expressed in this during the 1977 discharge procedure, it may be useful to summarize these special provisions.

1.9. Article 7 of the ECSC Treaty lays the responsibility for audit on the Court of Auditors. Article 78f requires the Court to prepare two separate reports on the accounts of the Community. First, paragraph 1 of this Article requires the Court to examine the accounts of all administrative expenditure and administrative revenue of the Community. Paragraph 4 requires the Court to draw up and publish an Annual

Report thereon in the Official Journal. Article 78g provides that the European Parliament, acting on a recommendation from the Council, shall give a discharge to the High Authority (i.e. the Commission) in respect of the implementation of the administrative budget. The Court carries out its responsibilities as regards this budget taking account of the following. All administrative expenditure of the ECSC is debited to the accounts of the Commission of the European Communities. A contribution towards this expenditure is made by the ECSC by debiting the income and expenditure account of the ECSC and crediting the accounts of the Commission with the same amount. In 1978 this contribution was 5 MEUA. The report which the Court must make under paragraph 4 of Article 78f is accordingly confined to this sum of 5 MEUA. The Court has verified this amount in the accounts of the ECSC and the Commission and has therefore carried out the obligation laid upon it by the ECSC Treaty in respect of 1978.

1.10. Second, paragraph 5 of Article 78f provides that within six months of the end of the financial year the Court shall draw up a separate Annual Report on the financial operations of the ECSC. This report is subject to a different procedure. The Treaty provides that the Court shall submit it to the High Authority and the Council. The High Authority has to forward it to the European Parliament but there is no provision in the Treaty for Parliament to grant discharge to the High Authority. The Report is therefore presented separately and is not covered by Part I of the observations set out in this document. An additional responsibility of the Court is to sign the ECSC balance sheet.

OTHER REPORTS

1.11. In addition to the matters dealt with in Part I of this Annual Report the Court has produced the following:

(a) **Opinions and special reports published by the Court in the Official Journal**

OJ No C 139 of 5 June 1979

Opinion on the draft Regulations:

(i) on the management of food aid, and

(ii) amending Regulations (EEC) No 2052/69, (EEC) No 1703/72 and (EEC) No 2681/74 on Community financing of expenditure incurred in respect of the supply of agricultural products as food aid, and repealing Decision 72/335/EEC.

Opinion on the draft Financial Regulation concerning the EAGGF, Guarantee Section for the periods 1967/68 to 1970.

Opinion on the draft Regulation on the application of the Financial Protocols concluded with Greece, Turkey and Portugal.

Opinion on the draft Regulation on the application of the provisions of Protocol 1 to the Cooperation Agreements concluded with Algeria, Morocco, Tunisia, Egypt, Lebanon, Jordan and Syria and the Financial Protocols concluded with Malta and Cyprus.

Opinion on the general revision of the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities.

Opinion on the draft Regulation on the procedure for applying the EUA to the legal acts adopted by the institutions of the European Communities.

Opinion on the draft Regulation amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities (borrowing and lending operations).

OJ No C 187 of 25 July 1979

Opinion on the draft Regulation on the measures to be taken in the event of irregularities affecting own resources and the organization of an information system for the Commission in this field.

OJ No C 221 of 3 September 1979

Special Report on the accommodation policies of the institutions of the European Communities.

OJ No C 225 of 7 September 1979

Opinion on a further draft Regulation amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities (budgetary management of the EAGGF, Guarantee Section).

(b) **Special reports made to one of the institutions of the Communities but not published by the Court**

Special report made to Parliament at its request on the entertainment and representation allowances

and expenses of the members of the Commission and on their mission expenses for 1977 and 1978.

ACCOUNTING POLICIES

1.12. Accounting policies encompass the principles, bases, conventions, rules and procedures adopted in preparing and presenting financial information. To assist the reader in assessing the information presented in the accounts a factual summary of the main accounting policies adopted in drawing up the budgetary accounts of the Communities is given below. Other aspects of accounting policies are dealt with in Chapter 11.

Conversion to EUA

1.13. Concerning the balance sheet, see Chapter 11.

1.14. As regards the income and expenditure account, own resources and financial contributions have been converted into EUA at the rate of exchange on the due date for payment. Other income and expenditure have been converted at a standard rate of exchange for the month in which they were incurred. Gains and losses on exchange relating to timing differences are included in account 951 'gain on differences in exchange rates'. The loss on exchange shown in the accounts arising from the revaluation in EUA on 1 January 1978 of the balance sheet drawn up in u.a. on 31 December 1977 is dealt with in Chapter 11.

Table 1. Examples of EUA monthly rates of exchange applied during 1978

	1 EUA for		
	January 1978	July 1978	December 1978
Dkr	7·098	7·023	7·002
DM	2·581	2·579	2·517
Bfrs/Lfrs	40·326	40·658	39·876
FF	5·769	5·601	5·785
£ Irl	0·640	0·669	0·672
Lit	1 069·90	1 061·48	1 109·39
£	0·640	0·669	0·672
Fl	2·784	2·776	2·734
US $	1·231	1·247	1·300

Own resources

1.15. Own resources are entered in the accounts on the basis of amounts actually credited during the year to the accounts held by the appropriate national authorities in the name of the Commission.

Financial contributions

1.16. Financial contributions are stated as the amount received for the year from the Member States.

Other income

1.17. Other income is stated on the basis of amounts actually received during the year.

Commitments

1.18. Commitments are entered in the accounts on the basis of the commitments contracted up to 31 December (1).

Payments

1.19. Payments of a financial year are stated on the basis of items for which authorization reached the financial controller not later than 31 December and for which payment was effected by the accounting officer not later than the following 15 January (1).

(1) Special provisions apply, however, to the EAGGF, Guarantee Section.

Capital items

1.20. No capital items are shown in the balance sheet. Further details are shown in Chapter 11.

Consolidated balance sheet

1.21. See Chapter 11.

MEASURES IMPLEMENTING THE FINANCIAL REGULATION

1.22. Article 106 of the Financial Regulation of 21 December 1977 provides that, in consultation with the European Parliament and the Council and after the other institutions have delivered their opinions, the Commission shall adopt implementing measures for this Financial Regulation. So far, no such measures have been adopted by the Commission which continues to apply its Regulation of 30 June 1975 (1) implementing the former Financial Regulation of 25 April 1973 (2), even though that Regulation has now been superseded. This is an unsatisfactory situation since it results in uncertainty over the legal basis of the Commission's existing implementing measures. The Court would like to know how far the Commission has progressed in its consultations with the other institutions and when it intends adopting the necessary measures.

Reply of the Council to paragraph 1.22

According to Article 106 of the Financial Regulation, the Commission shall adopt implementing measures for the Financial Regulation in consultation with the Council and the European Parliament.

The Council has to date not yet been consulted by the Commission on the implementing measures in question.

Reply of the Economic and Social Committee to paragraph 1.22

Application of the rules for implementing the Financial Regulation of 21 December 1977 would facilitate certain tasks.

Reply of the Commission to paragraph 1.22

The Commission agrees with the Court of Auditors' comment on the implementing measures for the Financial Regulation.

However, the Commission has quite deliberately delayed revision of the 1975 implementing measures pending important decisions directly related to the budget, such as the adoption of the proposal for a Regulation applying the European unit of account to the legal acts adopted by the institutions of the European Communities and the proposals for amending the Financial Regulation submitted by the Commission on 15 June 1978 and 23 April 1979 respectively.

It should be possible to make a general revision of the Financial Regulation in 1980.

AGRICULTURAL STOCKS

1.23. During the 1977 discharge procedure interest was expressed in the European Parliament in the question of the ownership and value of agricultural stocks held at the year end. The Commission stated that the legal position was clear, namely that these stocks do not belong to the Community as such but are bought, under Community rules, by Member States and other organizations. Payments are made from the Community budget to Member States to cover losses on sale and storage costs. Chapter 2 discusses the former in so far as losses are anticipated by making provision in the accounts. The storage costs are calculated from the valuations made by the intervention agencies in the Member States. The Court has not yet been able to check the control procedures during storage on the valuations on which these charges are based.

PRESS LEAKS

1.24. After the comments which form the basis for this report were sent to the institutions, articles appeared in newspapers and magazines about certain of the matters which the Court had raised. The conclusion which a reader was most likely to draw from these articles was that the Court had at that time made final judgements on these topics. These comments, however, are, by their very nature, provisional and restricted to the institutions to whom they are addressed. The institutions are required to reply to the comments and the Court takes these replies into account in deciding whether any matter which was the subject of a comment should go forward for inclusion in its Annual Report. It is at that point that the Treaty visualizes publication.

(1) OJ No L 170, 1. 7. 1975, p. 1.
(2) OJ No L 116, 1. 5. 1973, p. 1.

CHAPTER 2 — EAGGF, GUARANTEE SECTION

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INTRODUCTION

2.1. The total sum allocated to the EAGGF, Guarantee Section in the form of expenditure entered in the accounts in 1978 on the basis of payments made up until 31 December by the departments and paying agencies of the Member States amounted to 8 672·7 MEUA.

This sum should be compared with 6 830·4 MEUA charged to 1977 (including the payments from automatic carry-overs), an increase in expenditure of

26·9 % from one financial year to the next. The share of expenditure resulting from the monetary situation (MCA dual rates) nonetheless remains in the region of 20 % (20·6 % in 1977; 21·5 % in 1978). If the EAGGF, Guarantee Section figures are compared with those of the general budget, it will be seen that the appropriations of the former represented 70·1 % of the total in final appropriations. Expenditure during the financial year represented 77·5 % of Community expenditure, taking into account the large volume of carry-overs (Table 3).

2.2. The principal rules governing the financing of expenditure upon agricultural markets under the common agricultural policy were laid down by Regulation (EEC) No 729/70 (1) and in further detail by a series of secondary Regulations. As they depart considerably from the Regulations governing other expenditure, these rules form the subject of a special Title VIII of the Financial Regulation applicable to the general budget of the Communities.

2.3. The factors governing the expenditure of the EAGGF, Guarantee Section are mainly external to the budgetary procedure. Some derive from decisions prior to that procedure (prices of the marketing year, regulation of the market organization) and therefore will of necessity be included in the budget estimates. Others are based upon the vagaries of Community production and upon the world economic situation and in this instance affect the implementation of the budget during the financial year in such a way that the estimate may be completely changed. In both cases, use of the notion of compulsory expenditure (expenditure necessarily resulting from the Treaties or from acts adopted in accordance therewith) undermines the classical role of budgetary authorization.

BUDGETARY PROCEDURES

2.4. In 1978, the overall expenditure of the EAGGF, Guarantee Section exhausted almost all (99·6 %) of the appropriations allotted to Titles 6 and 7 and Chapters 44, 45 and 46 of the budget. This result was attained through last-minute transfers exactly compensating the surpluses of appropriations over expenditure declared at 20 January 1979 (about 480 MEUA saved in comparison to the estimates) by adjustment of intervention expenditure of the second category calculated at 20 February 1979. The ability to financially depreciate the stocks had the effect of absorbing the appropriations at the close of the financial year, thus making it possible to anticipate the expenditure for the following financial year, without having to request authorization from the budgetary authority for a carry-over (see further, paragraph 2.21).

Transfers

2.5. The Court found that the last transfer proposal, dated 26 March 1979, was submitted outside the statutory time limit for the part relating to transfers from one chapter to another, representing an amount of 302·4 MEUA.

Reply of the Commission to paragraph 2.5

The Court points out that the last transfer proposal presented on 26 March 1979 was not within the statutory time limit. Article 101 of the Financial Regulation of 21 December 1977 applicable to the budget of the European Communities does in fact lay down that the Commission may submit proposals to the Council for transfers of appropriations between chapters not later than one month before 31 March of the following financial year.

The Court made the same comment for the 1977 financial year. External constraints over which it has no influence make it difficult for the Commission to adhere to this deadline. It does not know what appropriations have been used until it receives the Member States' statements, which have to be sent by 20 February.

Since the transfer proposals are submitted to the EAGGF Committee, which discussed the transfer on 13 March, the Commission was unable to present the transfer to the Council until 26 March.

It is extremely difficult to adhere to the time limits laid down by Article 101 of the Financial Regulation for transfers.

2.6. The distribution of expenditure between the items and chapters of the EAGGF, Guarantee Section was considerably different from the initial allocation of the appropriations.

A total of 2 812 MEUA (2) was transferred in this way, i.e. 32·4 % of the final appropriations for the financial year (cf. Table 13).

(1) OJ No L 94, 28. 4. 1970, p. 13.

(2) In exact terms: 2 812 809 702·49 EUA.

The size of these transfers and the fact that all of the budgetary headings are quite radically affected by them tend to detract in large measure from the value of the initial decision of the budgetary authority.

Under Article 101 of the Financial Regulation, the Council rules on proposals by the Commission to transfer appropriations from one chapter to another and informs the Parliament of the transfers. For 1978, they represented 1 147·4 MEUA. The rest, which amounted to over half the appropriations transferred, was thus transferred within each chapter, by a decision of the Commission, in accordance with the procedure laid down in Regulation (EEC) No 729/70, the budgetary authority merely being kept informed.

The fact that agricultural expenditure is of a compulsory nature (cf. paragraph 2.3 above), in no way detracts from the significance of this point.

Delay in commitment and charging as payment

2.7. According to the second subparagraph of Article 97 (1) of the Financial Regulation, commitment and charging as payment should be made within two months of receipt of the statements forwarded by the Member States. Article 3 of Regulation (EEC) No 380/78 of 30 January 1978 [1] lays down that the statements of a given month should be sent before the 20th of the following month.

The actual dates of commitment and charging as payment indicated in Table 14 establish that, except for the intervention expenditure of the second category for December 1978, they were all outside the prescribed time limits.

The Court recalls that it already had to make similar observations in its 1977 Report. It would appear that the improvement which the Commission had hoped for in 1978 has not taken place.

Reply of the Commission to paragraph 2.7

There have indeed been serious delays in the monthly charging of commitments and payments. The improvement which the Commission had hoped to make in 1978 was dependent on computerization; this has been seriously delayed because of problems in developing organic analysis and programming. There has, however, been some improvement in the rate of monthly chargings despite the continued use of manual operation and further complications created by the introduction of the EUA.

Delays in forwarding to the Court of Auditors the budgetary documents and vouchers

2.8. As in past years, the problem has again arisen of the forwarding of documents to the Court of Auditors.

The Court insists upon observance of the Commission's obligation to forward the documents and vouchers strictly in accordance with the terms of Article 79 of the Financial Regulation and within the time limits prescribed therein, and in accordance, moreover, with the intentions expressed by the Commission in its replies to the observations published in the Annual Report concerning the financial year 1977.

Reply of the Commission to paragraph 2.8

This matter was rectified as soon as the Commission's attention was drawn to it by the Court of Auditors. The vouchers for the last quarter were forwarded to the Court of Auditors within the time limit laid down by Article 79 of the Financial Regulation.

Remarks of the Court on the Reply of the Commission to paragraph 2.8

It was only at the end of the financial year that the Commission was able to catch up on its arrears. The problem remains of forwarding these documents punctually each quarter throughout the financial year.

Carry-overs of appropriations from 1977 to 1978

2.9. Carry-overs of appropriations from the financial year 1977 to the financial year 1978 amounted to 1 022·8 m.u.a., i.e. 633·8 MEUA. This consists of an automatic carry-over of 999·1 m.u.a. (609·8 MEUA) of appropriations committed in detail and relating to first category expenditure by the Italian intervention agency (AIMA) [2], and of a non-automatic carry-over of 23·7 m.u.a. (24 MEUA) relating to the revenue arising from the financial contribution of the milk producers (co-responsibility levy).

(1) OJ No L 56, 27. 2. 1978, p. 1.

(2) Azienda di Stato per gli interventi nel mercato agricolo.

The AIMA automatic carry-over was converted into EUA at the rate of the lira used for January 1978, i.e. in accordance with the rule 't — 2' (1) the rate prevailing on 18 November 1977. It would have been more accurate since the amount carried over was equivalent to the sum of the 12 declarations of expenditure by AIMA for the financial year 1977, to use the conversion rate relating to each of these.

With regard to the utilization of this carry-over, the amending statement of expenditure was not submittted by Italy until 28 November 1978, despite letters of reminder from the Commission. Authorization took place on 15 December 1978. The financial controller gave his approval on 21 December and payment was debited in January 1979. The Court again found that the periods elapsing between the commitment under a particular budgetary heading and the charging as a payment were of considerable length, whereas these two operations should in principle be carried out within the same period (Article 97 of the Financial Regulation).

This situation changed in 1978, when there was no automatic carry-over of appropriations for the AIMA to 1979, thus putting an end to a practice followed constantly since 1973. Two factors contributed to this: firstly, Regulation (EEC) No 380/78 accepts expenditure by a paying agent as valid from the time of the issue and dispatch of a payment order, this was not the case under Regulation (EEC) No 2697/70 (2) previously in force; secondly, the reform of AIMA in 1974 replaced the system of assigning advances to designated officials by that of direct payment. It is thus now possible to charge in the normal way the expenditure declared by AIMA during the financial year.

The new procedure has made it possible to get rid of the phenomenon of massive carry-overs, but the fact remains that the system of payment in force in Italy does not solve the problem completely. Expenditure in respect of which a payment order has been issued during a given year is still paid late and clearing the accounts remains the only possibility of finally taking into account any corrections. The Court does not consider this solution to be entirely satisfactory since the purpose of the clearance procedure is essentially to check that the expenditure chargeable to a given year complies with Community regulations and not to carry out adjustments at the level of day-to-day management.

The non-automatic carry-over of appropriations relating to receipts from the financial contribution of milk producers was converted into EUA at the rates of the national currencies prevailing on 2 January 1978 and on the assumption of a distribution of expenditure in 1978 between Member States in proportion to their contributions. In such a case, any method of conversion is bound to be arbitrary. The appropriations carried over were fully used.

Reply of the Commission to paragraph 2.9

Since the EUA was not yet used in the budget in 1977 a problem did arise in calculating carry-overs of appropriations which had to be expressed in EUA in 1978.

As there are no Council rules on this matter, the Commission agreed upon what it thought to be the most suitable method, also bearing in mind the information supplied by AIMA.

Council Regulation (EEC) No 2697/70 had not defined the concepts of payment. New Regulation (EEC) No 380/78, which is based on practical experience, marks an improvement in financial management defining various concepts including those of payment which may be made at Community level.

The Commission will continue to monitor the implementation of these rules at the budgetary and accounting level, in particular by AIMA.

Carry-overs of appropriations from 1978 to 1979

2.10. The Commission requested a non-automatic carry-over of 30·4 MEUA from 1978 to 1979 for Item 6240 (Financial contribution by the Guarantee Section to premiums for non-marketing of milk and premiums for conversion).

These premiums give rise to the entry of appropriations in the budget in the proportions of 60 % to EAGGF, Guarantee Section (Item 6240) and 40 % to EAGGF, Guidance Section (Item 8360). Since the Guidance Section was allocated differentiated appropriations it was not necessary in the event of the under-utilization of the appropriations under Item 8360 to request a carry-over of appropriations. On the other hand, the carry-over procedure is necessary for Item 6240 which is subject to the rules of the Guarantee Section.

This discrepancy in procedure is indicative of how confused the method of budgetary allocation is, and how ambiguous the mode of financing.

(1) cf. Chapter 11.
(2) OJ No L 285, 31. 12. 1970, p. 63.

The Court considers that it would be preferable, in the interests of clarity of accounts and accurate assessment of the measure involved, to make a single budgetary allocation in one or other of the EAGGF Sections.

Reply of the Commission to paragraph 2.10

The Commission agrees with the Court of Auditors that it would be better to make the non-marketing premiums for milk and premiums for conversion the complete responsibility of either the Guarantee or the Guidance Sections; this would improve their financial management.

The solution adopted by the Council is, however, the outcome of lengthy discussions and a compromise between divergent views.

Negative appropriations

2.11. According to Articles 15 and 16 of the Financial Regulation the budget shall consist of a general statement of revenue then, in the sections dealing with each institution, statements of revenue and expenditure. In addition, Article 3 (1) of the same Regulation states that the revenue and expenditure shall be entered in full in the budget and in the accounts.

It is to be noted that for some years in the EAGGF, Guarantee Section accounts there have been appropriations which the Commission describes as 'negative appropriations', a concept which is unknown to the Financial Regulation.

The Audit Board already noted this fact under point 65 (4) of its 1976 Report. For the financial year 1978 negative appropriations appear under Item 4502 for 487 091 MEUA, corresponding to the intra-Community MCA on import. Other negative appropriations appear under Article 629 for 137 422 MEUA, corresponding to the financial contribution of milk producers, and under Item 6016 (Specific intervention measures in the cereals sector) for 0·042 MEUA, i.e. a total sum of 624 555 MEUA.

The Court finds that these entries are incompatible with the general budgetary principles of the separation of revenue and expenditure and with the provisions of the Financial Regulation referred to above. It is true that MCAs are provided for by Regulation (EEC) No 974/71 [1] and the co-responsibility levy by Regulation (EEC) No 1079/77 [2], but the fact that revenue has been specifically authorized by legislation does not mean that the Financial Regulation can be disregarded, in the absence of an express provision to that effect.

2.12. Such entries represent for the EAGGF, Guarantee Section a source of non-specific appropriations, equivalent to an item of general reserve. It enables the Commission, by using the transfer procedure of Article 101 of the Financial Regulation, to allocate funds to its deficit items without requesting the decision of the budgetary authority, which would be necessary if additional appropriations had to be used.

Moreover, in the 1978 preliminary draft budget the Commission recognized implicitly that the proceeds of the levy on milk producers should have been included under revenue in the general budget, stating that it was difficult to apply the provisions of Article 201 of the EEC Treaty as to the creation of own resources in this specific case due to the urgency of the measure and the necessity to align the corresponding revenue and expenditure. The Court could not endorse this reasoning and considers that the procedure followed has resulted in an allocation of funds by an indirect method.

Reply of the Commission to paragraphs 2.11 and 2.12

The common agricultural policy does create problems which have had to be solved, e.g. the granting and collection of monetary compensatory amounts in intra-Community trade and financial participation of producers in the milk sector. At the financial level, these measures have had to be incorporated in existing financial legislation and the present budgetary structure. Negative appropriations were hence unavoidable and were — furthermore — accepted by the budgetary authority. The Commission does, however, believe that, as a general rule, negative appropriations should be avoided as far as possible.

The Commission does not accept that this procedure would provide a source of funds — the level of which is not fixed in the budget — for the Commission. The level of these funds is determined by monetary fluctuations in the case of MCAs or co-responsibility rates fixed by the Council in the milk sector. These negative appropriations are also taken into account for the EAGGF as a whole in the preparation of the budget. It is true that extra funds are created if revenue exceeds estimates but this is also the case if payments are less than estimates for an item of expenditure.

(1) OJ No L 106, 2. 5. 1971, p. 1.

(2) OJ No L 131, 26. 5. 1977, p. 6.

Remarks of the Court on the Reply of the Commission to paragraphs 2.11 and 2.12

The Court can imagine that urgent reasons led the Commission to propose that the budgetary authority make an entry of 'negative appropriations'.

Nevertheless, the Court maintains its comment that once the 'negative appropriations' have been created, they form appropriations for which, legally, the authorization of expenditure does not cover a maximum amount, determined in advance by virtue of this authorization. This is the case where negative appropriations are entered since this involves an authorization of revenue of which the exact amount cannot be known and can be charged in excess of the amount entered in the budget.

The possible availability of these appropriations cannot in any circumstances be assimilated to that resulting from payments being below the estimates, under budgetary headings provided with the usual 'positive' appropriations.

Budgetary nomenclature

2.13. There are no general provisions governing budgetary nomenclature nor is there a special procedure for their revision. Article 15 (3) of the Financial Regulation states only: 'the budgetary nomenclature shall be decided in respect of the apportionment of the revenue and expenditure under separate titles, chapters and articles during the budgetary procedure'.

It is not unusual to amend, create or delete articles or items. This occurs when there are changes in the Regulations or to the way in which the accounts are presented. There results after several budgets a quite considerable transformation of the nomenclature which makes comprehension of the budgets, let alone comparison between them, a difficult task.

In the financial year 1978, for example, the following changes were made:

— transfer to Title 4 of the chapters devoted to agri-monetary expenditure following an amendment by the Parliament, but this expenditure will return to Title 7 in 1979,

— creation of Item 6231 of Article 624 (two items) and of Article 628,

— division of Article 629 into four items.

The first of these three measures calls for a comment relating to procedure. In fact, it is possible to question the regularity of certain transfers shown in the table below. By means of a transfer of agri-monetary expenditure in Title 4, the transfers between the different chapters of the EAGGF, Guarantee Section and Chapters 44, 45 and 46 should have been made according to the procedure laid down in Article 21, comprising a decision by the Parliament, and not that of Article 101 of the Financial Regulation.

Table 2. Transfers between chapters, ex-EAGGF, Guarantee Section

(EUA)

Date of decision	Chapter 44	Chapter 45	Chapter 46	Titles 6 and 7
12. 2. 1979		− 130 000 000	+ 207 000 000	− 77 000 000
9. 4. 1979	− 6 880 088	− 145 643 371	+ 235 354 749	− 82 831 290

Furthermore, these last two measures in the milk and milk products sector, in part due to the implementation of the co-responsibility levy, which will be dealt with below under paragraph 2.20, resulted in the duplication of the same measure in two budgetary items: under Item 6231 (Financial contributions to the supply of school milk) and under Item 6292 (Supply of milk to schools).

In general, the Court recommends more stable budgetary nomenclature and an effort to make the headings themselves clearer so that the cost of the measures contributing to the same policy can be readily identified.

Reply of the Commission to paragraph 2.13

(a) Budgetary nomenclature is decided under the budgetary procedure laid down in Article 15 of the Financial Regulation. Thus, all amendments to the nomenclature in relation to the previous financial year proposed by the Commission are decided by the budgetary authority. It should be remembered that a number of nomenclature changes in the EAGGF, Guarantee Section were rendered necessary by the changes in the content of this budgetary sector in order to reflect inter alia *those agricultural decisions which have new financial implications.*

The Commission realizes that over-frequent changes would be inadvisable, and therefore proposes changes only when it considers them to be essential.

It should also be emphasized that the nomenclature currently used in the EAGGF, Guarantee Section is the historical outcome of the creation and development of various common organizations of the market over a number of financial years. It would thus be appropriate to reappraise the entire nomenclature in such a way as to show the appropriations as consistently as possible: accordingly, the Commission departments responsible intend to tackle this problem at an early date and put forward suitable proposals when the time comes.

(b) The Commission does not share the Court's reservation on the use of Article 101 instead of Article 21 for transfers of appropriations used between Titles 6 and 7 of the EAGGF, Guarantee Section and Chapters 44, 45 and 46 under which — in 1978 — appropriations were set aside for monetary compensatory amounts.

Article 95 of the Financial Regulation stipulates that special provisions should apply to expenditure under the EAGGF, Guarantee Section. If, for the sake of presentation, the budgetary authority considers it advisable that a proportion of the EAGGF, Guarantee Section appropriation be shown outside Titles 6 and 7, Articles 96 to 101 would still apply. The transfers referred to in Table 2 are thus made outside the context of Titles 6 and 7 and not outside the context of the EAGGF, Guarantee Section.

FINANCIAL MANAGEMENT

Assessment of expenditure

2.14. Comparison over several financial years of the successive assessments at the various stages of preparation and implementation of the budget of the cost of the common agricultural policy, shows that the share of the EAGGF, Guarantee Section in the general budget of the Communities increases during the stages under consideration.

Table 3. Share of the EAGGF, Guarantee Section in the general budget

	Preliminary draft budget (1)	Draft budget (2)	Initial appropriations (3)	Final appropriations (4)	Appropriations carried over from previous years (5)	Payments (6)
	(m.u.a.)					
EAGGF	3 800·2	3 504·6	3 513·1	3 473·8	854·8	3 277·9
1974 ratio	62·5	69·7	69·2	66·5	43·2	72·6
General budget	6 077·6	5 025·9	5 079·5	5 224·9	1 980·3	4 516·4
EAGGF	3 772·1	3 772·1	3 980·5	4 336·3	827·3	4 821·5
1975 ratio	54·2	67·8	68·3	69·2	35·6	75·2
General budget	6 955·6	5 558·8	5 825·3	6 268·3	2 322·9	6 411·2
EAGGF	5 160·3	5 160·3	5 160·3	5 835·2	332·8	5 365·0
1976 ratio	64·3	69·2	68·1	68·9	15·7	73·6
General budget	8 019·2	7 456·6	7 576·9	8 470·6	2 123·8	7 287·6
EAGGF	6 390·0	6 390·0	6 167·4	7 103·1	677·7	6 166·8
1977 ratio	69·0	73·9	70·1	74·1	24·3	70·8
General budget	9 260·7	8 646·3	8 800·0	9 584·3	2 787·4	8 704·9
	(MEUA)					
EAGGF	7 795·1	8 128·6	8 695·2	8 679·2	633·8	9 278·6
1978 ratio	65·8	71·8	70·3	70·1	31·6	77·5
General budget	11 850·4	11 318·7	12 362·0	12 377·5	2 006·9	11 973·1

The comparison of columns 1 to 5 (appropriations) with column 6 (payments) is given by way of illustration. The transition from column 4 to column 6 is effected as follows: 4 + 5 = 6 + carry-over to following year + cancellation. These last two terms are not given in the table.

From comparison of the figures given in the above tables, there appears a tendency to systematically underestimate agricultural expenditure during the course of the budgetary process. At the outset, the Commission's preliminary draft budget does have some connection with the proposed prices which are prepared at the same time of the year by this same body. Subsequently, however, the decisions of the Council on agricultural prices turn out to be more costly than the Commission's proposals. There is thus introduced a discrepancy between the decisions which actually commit EAGGF, Guarantee Section expenditure and the budgetary document whose function is to estimate this very expenditure. The overall impression is that the Community as a whole prefers to put off to the last minute establishing the real cost of the EAGGF, Guarantee Section and its significance in Community expenditure.

Reply of the Commission to paragraph 2.14

The underestimating of agricultural expenditure referred to by the Court relates to three financial years out of five and is essentially the result of the differing calendars for the budgetary procedure and the procedure concerning the annual fixing of agricultural prices and associated measures; the reasons for this are that:

(i) hitherto it has always been the Council's wish to draw up a budget on the basis of existing agricultural Regulations, leaving out of account the effect of future price decisions;

(ii) the annual fixing of agricultural prices by the Council takes place before the beginning of the agricultural marketing years, i.e. between March and June, at a time when the budgetary procedure has been completed.

Total appropriations

2.15. The total appropriations administered by the EAGGF, Guarantee Section in the financial year 1978 amount to 9 313 MEUA. Details of these are shown in the table below:

Table 4

Type of appropriation	1976	1977	1978 (1)	
	(m.u.a.)	(m.u.a.)	(m.u.a.) (2)	(MEUA)
I. Appropriations available:				
Appropriations for the financial year:				
Initial appropriations	5 160·3	6 167·4	8 646·7	8 695·2
Supplementary or amending budget	+ 717·3	+ 934·2	—	—
Transfers from one title to another	− 42·4	+ 1·5	− 15·9	− 16·0
Final appropriations (sub-total)	5 835·2	7 103·1	8 630·8	8 679·2
Appropriations from the previous financial year:				
Non-automatic carry-overs (Article 6 (1) (b))	—	92·4	23·7	24·0
Total I	5 835·2	7 195·5	8 654·5	8 703·2
II. Appropriations committed and carried forward from the previous financial year (automatic carry-overs, Article 6 (1) (c)):				
As payment carry-overs (from appropriations committed in detail)	299·2	529·2	999·1	609·8
As commitment carry-overs (from appropriations committed globally)	33·6	56·2	—	—
Total II	332·8	585·4	999·1	609·8
III. Total appropriations for the financial year: (Total I + Total II)	6 168·0	7 780·9	9 653·6	9 313·0

(1) The appropriations included under Chapters 44, 45 and 46 have been included in the above amounts as relating to the EAGGF, Guarantee Section even though their temporary allocation to Title 4 poses problems of budgetary procedure.

(2) The conversion of appropriations for the financial year 1978 into u.a. is only given by way of illustration. It was arrived at using the coefficients resulting from total expenditure u.a.

total expenditure EUA

None of three supplementary or amending budgets of the financial year affected the appropriations of the EAGGF, Guarantee Section. Supplementary budget No 2 adopted on 15 March 1978 involved a restructuring of the budgetary nomenclature in the sector of milk and milk products.

Management of the available appropriations

2.16. (a) The necessary funds for the implementation of payments are made available in the Member States by Commission Decisions granting advances. These Decisions are taken on a monthly basis after consultation of the EAGGF Committee by taking into account the cash balances available and the estimates of expenditure made by each paying agency. The Regulations are drawn up on the basis that the financial resources made available to the Member States should ensure effective liquidity for at least one month. From the budgetary point of view, these advances constitute provisional global commitments which, in accordance with Article 96 of the Financial Regulation, should be approved as long as they are within the limits of the total available appropriations of the Guarantee Section.

The Commission has the duty of seeing that the fund is properly managed, and in particular of ensuring that the Member States have fulfilled their obligations. For example, the Member States should ensure that 'the credits are used without delay and solely for the purposes laid down' (Article 4 (2) of Regulation (EEC) No 729/70) and ensure 'that the Community funds are properly managed .... in such a manner as to allow a similar rate of payment for all the expenditure financed by the Guarantee Section' (Article 1 (3) of Regulation (EEC) No 380/78).

(b) The Court pointed out in its first report that the cash balances of certain Member States had benefited excessively during the financial years 1976 and 1977. In doing so, the Court was merely repeating the criticism voiced by the Commission itself, in particular in the sixth and seventh EAGGF Financial Reports, in the face of a situation which it proved powerless to control.

For the financial year 1977, this situation was characterized both by a utilization rate of appropriations at 31 December 1977 which was unusually low in the case of Italy (76·8 % as against an annual average rate of 92·9 %) and by a monthly average rate in the case of Italy (30 %) and of France (65 %) which was likewise inadequate in relation to the total.

At 31 December 1977 the appropriations still available in the Member States totalled 508·8 m.u.a. against 157·9 at the beginning of the financial year. From the budgetary point of view, this sum, which constituted an excess of provisional global commitments over the expenditure declared by the Member States, was released and cancelled as regards 1977 and re-committed for the following financial year, in accordance with the provisions of Article 100 (2) of the Financial Regulation.

(c) The appropriations available at the beginning of the financial year 1978 were corrected in order to incorporate the advances made in 1977 from the Guidance share (40 %) of the premiums for the non-marketing of milk, and to take into account the corrections made in the expenditure declared by AIMA. Their total increased from 508·8 to 522·3 m.u.a. which were then converted into MEUA at the rate prevailing on 18 November 1977 (t-2), i.e. 417·4 MEUA at 1 January 1978.

During the financial year 1978, the total advances granted came to 8 354·2 MEUA including 7 624·1 MEUA in ordinary advances for the Guarantee Section, 575·5 MEUA of extraordinary advances also for the Guarantee Section, and 154·6 MEUA in special advances for the premium for the non-marketing of milk relating to both the Guarantee and Guidance Sections (cf. Table 6). Allowing for the 8 737·7 MEUA of expenditure declared, the appropriations available at 31 December 1978 were no more than 33·9 MEUA, representing an annual average utilization rate of 99·6 %.

Although the situation has apparently returned to normal, it continues to hide disparities in the utilization of the appropriations by the various Member States, which come to light upon examination of the monthly average utilization rates during the financial year (Table 5). The rate of 65 % for France is the same as in 1977 while Italy had a rate of 40 % in 1978, against 30 % in 1977.

(d) The reason for this situation is still not clear:

— a multiplicity of paying agencies might result in an additional time-lag between the estimates of expenditure expressed as financial needs and actual expenditure: but this does not explain the total contrast between the situation in France and in the Netherlands which both have several paying agencies;

— the effect of negative appropriations (MCAs collected, co-responsibility tax) could facilitate both the retention of revenue and the anticipation of corresponding expenditure;

— the complexity of administrative and financial channels could play an important role in certain cases (Italy): the existence of a 'theoretical' paying agency only known to the Commission (AIMA) and of the decentralized real paying agencies (the regional treasuries); plus the procedure for prior approval, to be given centrally by the Italian Court of Auditors;

— the particular situation arising from transfers to Italy from the various Member States of public stocks at nil price: since Italy thus comes into possession of additional income from sales revenue during the financial year (in principle declared on a monthly basis), it might, at the close of the financial year, have had to repurchase, in accounting terms, the balance of the stocks transferred. This in turn would justify at that moment a sizeable financing which could then be progressively written off by later sales.

(e) The replacement of Regulation (EEC) No 2697/70 by Regulation (EEC) No 380/78 does not seem to have notably improved the situation in 1978. Extraordinary advances were granted during the financial year to Member States whose monthly utilization rate had remained constantly very low, which is plainly contrary to the letter of Article 5 (1) of Regulation (EEC) No 380/78, as it is to the spirit of the Financial Regulations of the Guarantee Section as a whole. The Court recommends that the Commission request the Member States to exercise greater strictness in the implementation of their commitments. It would be advisable, in addition, to re-examine all the conditions which govern the procedure for granting advances.

Table 5. Utilization rate of the appropriations available

Member State	1976 (%)		1977 (%)		1978 (%)	
	At 31 December (1)	Monthly average (2)	At 31 December (3)	Monthly average (4)	At 31 December (5)	Monthly average (6)
Belgium	99·9	98	98·2	89	99·2	88
Denmark	99·9	110	99	96	98·7	97
Germany	100	79	97·7	81	100·4	84
France	100	78	92·4	65	97·4	65
Ireland	99·7	—	100·2	100	99·1	90
Italy	91·3	65	76·8	30	101·1	40
Luxembourg	98·8	91	94·2	57	99·6	83
Netherlands	100	99	97·4	88	101·4	111
United Kingdom	99·1	77	93·9	71	99·3	83
EEC total	98·1	84	92·9	64	99·6	77

Source:

EAGGF Financial Report. For 1978, these rates include the utilization of special advances relating to the premium for the non-marketing of milk, 60 % of which is chargeable to the Guarantee Section and 40 % to the Guidance Section — a total expenditure of 154·6 MEUA.

Remarks

— The figures in the odd columns do not represent an annual average but a rate of utilization of the funds available at 31 December.

— The figures in the even columns, on the other hand, are the average monthly rates of utilization of the funds. For each Member State, chronic under-utilization of the funds, and thus an excess of liquidity, during the year does not exclude the possibility of a cash deficit at the end of the year.

Table 6. Appropriations available and expenditure in 1978

(MEUA)

	Appropriations available, adjusted at 1 January 1978	Advances during the financial year (including the exchange differences)	Total of appropriations available in 1978	Expenditure declared from 1 January to 31 December 1978	Appropriations available at 31 December 1978	Utilization rate
Guarantee ex premium	394·4	(o) 7 624·1 (e) 575·5	8 594·0	8 575·4	18·6	99·8
Premiums						
60 % Guarantee	13·8	(o) 92·0 (e) 0·8	106·6	97·4	9·2	91·4
40 % Guidance	9·2	(o) 61·2 (e) 0·6	71·0	64·9	6·1	91·4
Total	417·4	8 354·2	8 771·6	8 737·7	33·9	99·6

(o) = ordinary.
(e) = extraordinary.

Reply of the Commission to paragraph 2.16

The Commission acknowledges that there is a trend — especially in Italy and France — to hold unduly high liquid assets. This is the result of a number of factors referred to by the Court in paragraph (d) and by the Commission in its annual financial reports on the EAGGF.

The administrative agencies in the Member States for handling payments and the methods used to draw up monthly estimates have a decisive effect on cash balances.

Moreover, insufficient working capital necessarily gives rise to an increased number of extraordinary advances.

The Commission has on several occasions asked Member States to tighten their control in respect of the submission of requests for advances, and will continue to try to keep cash balances to the bare requirements; especially in view of the fact that the rate at which the funds were used was higher in 1978 than 1977, i.e. 77 % compared with 64 %. As soon as the returns submitted by Member States are processed by computer, the Commission will be in a better position to strengthen its control over cash balances.

Implementation of expenditure

2.17. The appropriations in Table 4 were utilized as follows:

Table 7

Type of expenditure	1976 (m.u.a.)	1977 (m.u.a.)	1978	
			(m.u.a.) (1)	(MEUA)
I. Utilization of appropriations available:				
Appropriations for the financial year:				
Charged as payments	5 040·8	5 570·9	8 600·5	8 648·8 (3)
Carry-overs of appropriations (Article 6 (1) (c)):				
Payment carry-overs (from appropriations committed in detail)	529·2	999·1	—	—
Commitment carry-overs (from appropriations committed globally)	56·2	—	—	—
Non-automatic carry-overs	92·4	23·7	30·3	30·4
Cancellations:				
From appropriations committed globally	50·0	508·8	—	—
From non-committed appropriations	66·6	0·6	—	—
Sub-total	5 835·2	7 103·1	8 630·8	8 679·2
Appropriations from the previous financial year carried over (Article 6 (1) (b)):				
Charged as payments	—	92·4	23·7	24·0 (2)
Total I	5 835·2	7 195·5	5 654·5	8 703·2
II. Utilization of appropriations carried over automatically (Article 6 (1) (c)):				
Charged as payments	324·2	503·5	993·1	605·8 (2)
Cancellations	8·6	81·9	6·0	4·0 (2)
Total II	332·8	585·4	999·1	609·8
III. Total I + Total II	6 168·0	7 780·9	9 653·6	9 313·0

(1) Conversion into m.u.a. identical to Table 4.
(2) The 1977 carry-overs of 1 022·8 m.u.a. were converted in 1978 into 633·8 MEUA.
(3) Including 0·1 MEUA corresponding to the taking over of the 1971 to 1972 clearance.

2.18. An examination of the previous Tables 4 and 7 detailing the EAGGF, Guarantee Section expenditure reveals the apparently strict management of the accounts for the financial year 1978. There was no supplementary budget or transfer to increase the volume of the appropriations. No cancellations were required. Further, the position of the carry-overs of appropriations was put in order. Only a small transfer of 16 MEUA outside Titles 4 and 7 (1) and a non-automatic carry-over of 30·4 MEUA (2) were effected.

This situation would be commended by the Court of Auditors, if it did not contrast a little too sharply with the previous financial years and in particular with the multiplicity of movements of funds between the various budgetary headings of the EAGGF, Guarantee Section.

(1) Including 14 MEUA from Item 6000 and 2 MEUA from Chapter 46 to Item 8303 (Surveillance of the Community fishing zone).

(2) Item 6240 (Share of the Guarantee Section in expenditure arising from premiums for the non-marketing of milk and for the conversion of dairy herds).

As Table 15 shows, the final distribution of expenditure differs considerably from that of the initial appropriations and it is surprising that, as if by chance, the various pieces of this financial puzzle fit together perfectly at the close of the financial year. The explanation of this phenomenon is found when one examines the three following points.

Overestimate of certain appropriations

2.19. In contrast to the previous years, it has not been necessary to have recourse to supplementary budgets to meet the compulsory character of expenditure, where it arises. Beginning with the budget itself, the volume of initial appropriations estimated proved to be adequate in total and internal transfers made it possible to adjust the allocation of the appropriations to the structure of the final expenditure.

Certain chapters of the EAGGF, Guarantee Section seem to have been repeatedly overestimated. Table 15 shows this to be the case with cereals, rice, oils and fats and pigmeat in particular.

This practice provides, in fact, the EAGGF, Guarantee Section with a sort of reserve item spread among various allocations, including the headings which have negative appropriations.

While aware of the necessity that sometimes arises of financing certain accounts quickly, the Court considers that it would be preferable to request that an official reserve item be opened for this purpose.

Reply of the Commission to paragraph 2.19

The Court makes the criticism that certain appropriations are overestimated. The Commission, however, does not feel that the fact that some appropriations happened to be overestimated and others underestimated over more than one year can be seen as a deliberate effort to create reserves. The Commission makes every endeavour to draw up budgetary estimates which are as objective and valid as possible in often extremely difficult conditions and to improve its methods from year to year. There is thus clearly no attempt made to contrive a reserve in each chapter.

Estimates for cereals are based on the trends on production and in world market prices. If a harvest is slightly lower than expected — which was the case in 1977/78 — or world market prices rise (1974), expenditure will be considerably less than the estimates. Conversely, if a harvest is higher or world market prices lower, expenditure will exceed estimates, as was the case in 1972 and 1973. The situation is similar in the rice and pigmeat sectors. There is a long time-lag in the granting of production aid for olive oil. The Italian administration's efforts to shorten this time-lag led to a marked speeding-up in payments in 1973 and expenditure hence far exceeded estimates. Allowance has since been made in the preparation of the budget for some speeding-up in delayed payments. This time-lag has, however, again become marked in 1979.

Another problem is the creation of an overall contingency reserve to cover additional expenditure whose financial impact is impossible to determine in advance: decisions by the (Agriculture) Council to alter prices or common market organizations, fluctuations in world prices, contingency measures, etc.. This reserve may obviate the need for supplementary budgets; the Commission has proposed its creation on several occasions in previous preliminary draft budgets but its proposals have not been taken up so far by the budgetary authority and the Council in particular.

Revenue arising from the co-responsibility levy

2.20. With regard to the co-responsibility levy a distinction should be made between the programme for the utilization of the co-responsibility funds from the milk sector and the budgetary position.

The fund utilization programme

This programme is the result of communications by the Commission to the Council, the third and last such communication dating from 16 March 1979 (document COM(79) 113 final). It was drawn up after consultation with the working party on co-responsibility and receipt of the opinion of the Advisory Committee. It covers the period between 16 September 1977 and 31 March 1979, but its estimates extend to 31 May 1979 on the assumption that the co-responsibility rate of 0·5 % will be applied until 31 May 1979.

The revenue estimated on this basis amounts to 210·5 MAUA [1] distributed as follows:

[1] Million agricultural units of account.

Table 8. Distribution of co-responsibility revenue

(MAUA)

Measures	Expenditure		Total
	Already decided	Proposed	
(a) Advertising, promotion	27	27	54
(b) Market research within the Community	4	4	8
(c) Market research outside the Community	9	9	18
(d) School milk	15·5	18	33·5
(e) Butter for ice-cream	30	19·5	49·5
(f) Concentrated butter	13	3	16
(g) Improvement of quality of milk	25	6·5	31·5
(h) Others	—	—	—
Total	123·5	87	210·5

The amount of 210·5 MAUA, or more if the revenue should turn out to exceed the estimates, for example, in the event that the present levy system remained applicable until 30 June 1979, would be the maximum to be distributed under the present system. New proposals provide for revenue no longer being allocated but being deducted from the overall expenditure in the dairy sector.

At present, it is not yet possible to assess the results of the different programmes, several of which did not, in fact, begin until late into 1978. Advertising and promotion campaigns have recently been launched in all the Member States. Numerous contracts for market research within and outside the Community are being studied and will shortly be concluded with public and private bodies.

With regard to the programme to improve the quality of milk (which includes, for example, the purchase of equipment for analyses and the training of laboratory staff), the Commission recently examined 209 requests. The programmes for distribution of milk in schools and manufacture of concentrated butter have as yet had disappointing results according to the Commission, which plans some changes to them. Sales of butter for the manufacture of ice-cream, on the other hand, are increasing considerably: the programme has made it possible for sales to rise from 15 000 tonnes to 38 000 tonnes and this figure could reach 45 000 tonnes in 1979.

The budgetary position

The figures for the financial year 1978 are as follows:

Table 9. Revenue and expenditure relating to the co-responsibility levy

(AUA)

Budget heading	1977 (carried over)	1978	
Revenue (Article 628)	21 783 000	Budget 214 200 000	Collected 137 421 523·75
Expenditure (Article 629)		Supplementary and amending budget No 2	Payments
6291: Market development measures		40 000 000	8 744 845·19
6292: Supply of school milk	4 587 033·53	26 000 000	5 420 611·91
6293: Special disposal measures for butterfats	17 195 966·47	47 000 000	7 941 415·46
6299: Other measures		101 200 000	
Total	21 783 000	214 200 000	22 106 872·56

The above table shows firstly that the estimates of revenue and expenditure in no way correspond to the actual figures for 1978, and secondly that revenue in no way corresponds with expenditure.

Total revenue for 1978, set at 236 MAUA (initial appropriations + carry-overs from 1977), was in fact 159·2 MAUA. Expenditure on the various measures represented 43·9 MAUA, including expenditure from appropriations carried over from 1977.

115·3 MAUA was transferred to other budgetary headings and no carry-over from 1978 to 1979 was recorded. This method of proceeding calls for the following comments.

(a) By entering the proceeds of the levy as negative appropriations under Article 623, followed by a special Article (629) for expenditure upon measures for the organization of the market taken in conjunction with this levy, and by then deciding to allot to these measures sums equal to the actual amount of the levy collected by May 1979 (with a minimum of 210·5 MAUA), the Commission, in fact, made an allotment of revenue to expenditure without any legal basis.

(b) By not effecting in the course of the financial year the expenditure planned for 1978, the Commission failed to follow the programme for restabilizing the milk market which it had itself proposed to the Council and which was the counterpart of the co-responsibility levy. The Commission was in consequence forced to make available the appropriations necessary to fulfil this obligation during the course of 1979, since it had not requested that any appropriations be carried over.

The Court finds that, contrary to their declared aims, these operations were in reality intended to cover additional expenditure of the EAGGF, Guarantee Section for 1978 and to arrange for the expenditure to be carried over to the next financial year.

Reply of the Commission to paragraph 2.20

With regard to the entry into the accounts by the EAGGF, Guarantee Section of revenue and expenditure arising from Council Regulation (EEC) No 1079/77 on a co-responsibility levy and on measures for expanding the markets in milk and milk products, it should be remembered that the expenditure arising from the measures for expanding the market were the political counterpart to the introduction of financial participation by the producers.

Furthermore, this is borne out in the last two paragraphs of the preamble to Regulation (EEC) No 1079/77 which states:

'Whereas provision should be made for specific measures linked to the levy to encourage the expansion of markets and the disposal of surpluses on the Community and world markets;

Whereas all the measures provided for in this Regulation are designed to stabilize the market in milk products and thus to supplement the existing intervention system; whereas care should therefore be taken to ensure that the arrangements for financing the common agricultural policy take account of the levies and expenditure entailed in the specific measures;'.

Also bearing in mind the Commission's reply to point 2.11 on negative appropriations, there were practically no other financial options open.

The implementation of measures for 'expanding the market has, in fact, been held up because new measures had to be devised, professional organizations consulted, Regulations drawn up, invitations to tender sent out and hundreds of contracts concluded.

Remarks of the Court on the Reply of the Commission to paragraph 2.20

The final result of the application of the co-responsibility levy will have been not only *de facto* to allot revenue contrary to budgetary principles, but also to fail to comply with the programme of expenditure corresponding to this allotment and thus to carry the cost over to the following financial years.

Anticipated depreciation of stocks

2.21. Article 8 of Regulation (EEC) No 1883/78 [1] makes provision for:

— the obligation to value the intervention stocks at 31 December at the average purchase price of the products (and no longer at the intervention prices),

— the possibility of effecting financial depreciation in the value of the stocks.

Following application of this Article in 1978, the following expenditure was entered in the accounts:

[1] OJ No L 216, 5. 8. 1978, p. 1.

— as valuation of the stocks at 31 December 145·3 MEUA, calculated in accordance with Regulation (EEC) No 2879/78 [1],

— as financial depreciation of stocks, 306·2 MEUA, taking into account the fact that on leaving intervention the prices were considerably lower than the purchase prices, and calculated within the limit of the appropriations available.

A total of 451·5 MEUA was thus 'recovered' bringing the final expenditure to a level close to that of the appropriations, if the non-automatic carry-over of 30·4 MEUA already mentioned is taken into account. Regulation (EEC) No 1883/78 makes provision, in certain cases and for certain products, for effecting a depreciation, but does not stipulate that it must be made on the basis of the appropriations which remain available. The Commission, on the other hand, has systematically exploited the opportunity offered to it by the new Regulation to adjust expenditure to appropriations, when surpluses remained available.

2.22. The Court does not intend at the present stage to consider the merits of the system introduced by Regulation (EEC) No 1883/78, and by Article 8 thereof in particular. The question whether it is desirable to anticipate the depreciation of the stocks in the very year in which they were constituted, introduces a number of complex considerations and should be the subject of a detailed study. At all events, as the regulations now stand, the question is one of providing for the expense that the Community budget must bear upon clearance of stocks by the Member States and not of arranging in the accounts for the depreciation of stocks which do not appear in the Community's balance sheet.

2.23. On the other hand, the Court does feel able to draw the attention of the budgetary authorities to the fact that the powers created by Article 8 of Regulation (EEC) No 1883/78 should be used according to objective and methodical standards. It is incumbent upon the EAGGF Committee with whom consultation in this matter is prescribed, to amplify the criteria adverted to in Regulation (EEC) No 1883/78. The final result of operations of this kind should not be to absorb exactly — as if by chance — the existing appropriations.

The Court notes the following points in particular:

(a) the powers created by Regulation (EEC) No 1883/78 should not lead to excessive loosening of the constraints upon budgetary management, or to the EAGGF, Guarantee Section being exempt in practice from the rule of annuality;

(b) the choice and quantity of products subject to depreciation should not be entirely discretionary; this would result in the greatest difficulties in assessing changes in the stocks from one year to another;

(c) it is worthwhile making a study of how Article 8 of Regulation (EEC) No 1883/78 may be reconciled with certain provisions in earlier Regulations. For example, Regulation (EEC) No 376/70 [2] concerning the internal sale price of stocks of cereals, which fixes a minimum equal to the intervention price plus 1·50 units of account per tonne: does this mean that there can never be a depreciation in this case?;

(d) presentation of the sums committed by reason of Article 8 of Regulation (EEC) No 1883/78 under a special budgetary heading is essential.

Reply of the Commission to paragraphs 2.21 and 2.23

Under EAGGF rules, until 1977 intervention stocks at 31 December had to be valued at their intervention price at that date. This rule created profits in the books in some cases for these stocks which artificially reduced expenditure in the year in question.

The rules were changed in 1978 to prevent this situation arising. Article 8 (1) of Council Regulation (EEC) No 1883/78 provides that intervention stocks carried over to the subsequent year must be valued at their purchase price.

On the other hand, the second paragraph of Article 8 contains provision for anticipated depreciation of the value of intervention products in relation to future disposal conditions within the framework of limiting criteria.

The degree of depreciation of value within the maximum amount authorized by the Council depends on estimated purchase prices. Such writing-down operations are carried out in the latter months of the financial year solely on the basis of the appropriations still available.

This depreciation in the value of stocks of products also leads to savings since the funds blocked by the Member States and the interest charges borne by the EAGGF can be reduced.

[1] OJ No L 342, 7. 12. 1978, p. 14.

[2] OJ No L 47, 28. 2. 1970, p. 49.

As the Court rightly points out, the Commission has not failed to make a detailed examination in conjunction with the EAGGF Committee of the way in which Article 8 is implemented.

In its preliminary draft budget for 1980, the Commission has subdivided the budgetary heading of expenditure on public stocks into three parts, i.e. technical costs, financial costs and price disparity. The Commission does not think it appropriate to include a fourth subheading for the occasional implementation of the second subparagraph of Article 8 of Regulation (EEC) No 1883/78.

CLEARING THE ACCOUNTS

Closing of the accounts 1967/68 to 1970

2.24. The final closing of the accounts for the period 1967/68 to 1970 took place in October 1978 after the Commission had taken, on 20 December 1977 (1), 24 Decisions on aid from the EAGGF (one per Member State for each accounting period: 1967/68, 1968/69, second half of 1969 and 1970).

It should be recalled that in view of the considerable delays in closing these accounts, an *ad hoc* Financial Regulation, which departs from the law and from established budgetary principles, was adopted on 6 June 1978 (2) by the Council.

In accordance with this Regulation, the Commission kept, for each of the six Member States concerned, an account per accounting period which was:

— credited with the amounts to be refunded to the Member State in application of the abovementioned Decisions,

— debited with the contributions from the Member State, in accordance with Article 11 of Regulation No 130/66/EEC of 26 July 1966 (3).

The balance resulting from this account was notified to the Member States on 28 July 1978, in accordance with Article 2 (2) of the abovementioned Financial Regulation, which makes provision for the payment of sums due by Member States in debit within one month of notification of this balance and for payment by the Commission to the Member States in credit within two months of this notification. These transactions were duly carried out.

Thus it can be seen that the accounts were closed following a delay of eight to 11 years.

In its opinion on the draft Financial Regulation, the Court of Auditors requested the Commission in particular to 'implement all necessary measures in order to avoid situations of this kind in the future'.

Accounts for 1971 and 1972

2.25. In accordance with the procedure laid down by Regulation (EEC) No 1723/72 of 26 July 1972 (4), the accounts for the financial years 1971 and 1972 were closed on 2 December 1975.

These accounts were the subject of two points of contention.

— The first concerned a management decision before the clearance decisions had been taken.

  By a judgment of 4 May 1976 the Court of Justice invalidated a decision of the Commission refusing to charge to the EAGGF transport costs declared by Germany and linked to transfers of intervention cereals. Following this, the Commission was obliged to recognize that these changes of warehouse were justified, and by a Decision of 21 June 1978, on 28 July 1978 amended the clearance Decisions relating to Germany by charging to the EAGGF in 1978 an additional DM 307 833·81 for the two financial years 1971 and 1972, which was equal to 119 659·10 EUA at the EUA rate applicable during July 1978 (rate t-2), distributed as follows: 90 204·54 EUA under Item 6015 (Buying in and subsequent cereal operations) and 29 454·56 EUA under Item 4600 (Effect of the dual exchange rate).

— The second concerned the clearance Decisions themselves, certain of which were contested before the Court of Justice by Germany, France and the Netherlands.

  The Court of Justice decided in favour of the Commission on eight of the matters raised, but it cancelled Decisions 76/141/EEC and 76/147/EEC inasmuch as they left the amounts of 17·93 and 12·05 million DM relating to butter operations

(1) OJ No L 70, 13. 3. 1978.
(2) OJ No L 160, 17. 6. 1978, p. 25.
(3) OJ No 165, 21. 9. 1966, p. 2965/66.
(4) OJ No L 186, 16. 8. 1972, p. 1.

(social butter) to be borne by the Federal Republic of Germany.

The Decisions were only adopted on 7 February 1979 [1] and therefore their influence on the budget will probably only appear in the accounts for this year.

Financial year 1973

2.26. After inspecting the accounts for the financial year, the Commission summarized its findings in a report submitted for examination by representatives of the Member States at a meeting of the EAGGF Committee, prior to final notification to the Member States.

The Commission should finally close the accounts during the last quarter of 1979 (estimated delay four and a half years).

Financial years 1974 and 1975

2.27. The Commission departments finished the preparatory work and on-the-spot audits at the end of July 1979. Letters were sent to the Member States in October. A summary report should be drawn up by the end of 1979.

The final closing of the accounts could therefore take place during the second quarter of 1980 (estimated delay four and a half and three and a half years).

Financial years 1976 and 1977

2.28. The on-the-spot audits in the Member States began in October 1979 and should be finished by June 1980.

The Commission considers that the accounts could finally be closed in the first quarter of 1981 (estimated delay three and a half and two and a half years).

The Court observes that the stipulated periods within which the accounts are to be cleared are still not observed. This delay results partly from the fact that the Member States do not respect the time limits within which they are to provide supporting documents, despite the additional period of six months (beginning of October instead of end of March) granted by the Commission. The Court refers to its earlier comments in this respect in its report for the financial year 1977.

Reply of the Commission to paragraph 2.26

The Commission confirms that it decided on the final closure of the accounts for the financial year 1973 on 12 October 1979; for the first time, these accounts included the nine Member States; its departments are currently giving priority attention to the consolidated auditing of accounts for 1974 and 1975.

AGRI-MONETARY EXPENDITURE

Budgetary presentation of monetary compensatory amounts (MCA)

2.29. The budgetary presentation of the financial operations relating to the MCA should, in the interests of clarity, distinguish between:

(a) intra-Community trade and extra-Community trade;

(b) import and export;

(c) payment and collection.

Observance of this proposition should normally result in the distribution of the MCAs between the various allocations.

In fact, the presentation in the budget appears incomplete and it should be noted that the amounts entered into the accounts are not representative of the expenditure, or of the actual MCA resources from the various compensations effected.

(a) Thus for the intra-Community MCAs only the balances between payments and sums collected are referred to under Item 4500 (MCAs on imports paid or collected by importing Member States) and Item 4502 (MCAs on exports paid or collected by exporting Member States). This adjustment results from the adoption of a budgetary presentation contrary to Article 199 of the Treaty and to Article 3 (1) of the Financial Regulation, which prohibit any adjustment between revenue and expenditure.

[1] Judgment of 7 February 1979, case 18/76, Federal Republic of Germany v. Commission, annulling Commission Decisions 76/141/EEC and 76/147/EEC.

(a) The full amounts are, however, known since they appear in the annual financial report of the EAGGF, Guarantee Section. Thus the sum of 32·908 MEUA shown under Item 4500 represents, in fact, expenditure of 229·922 MEUA and revenue of 197·014 MEUA; the sum of −487·091 MEUA under Item 4502 represents revenue of 647·042 MEUA and expenditure of 159·951 MEUA.

(b) For the extra-Community MCAs only the sums granted are mentioned since the levies are entered as own resources where they are not itemized. In accordance with Regulation (EEC) No 974/71 (1) there is direct compensation between extra-Community MCAs and levies or refunds, as the case may be, which are, however, measures of a different nature.

The Court notes that these various compensations have the effect of making it impossible to measure accurately the refund expenditure, the revenue from levies and above all the extent of the monetary compensatory amounts in the budget.

Reply of the Commission to paragraph 2.29

It is true that the appropriations relating to monetary compensatory amounts do not fully reflect the monetary effects on EAGGF transactions. An entirely satisfactory solution would, however, oblige national governments with depreciated currencies to give up deducting the monetary compensatory amount from the refunds; this would significantly increase the already high number of cases dealt with, complicate the task of market operators and increase the risk of fraud. It should also be noted that the compensatory amounts are a temporary instrument whose financial impact is declining.

Remarks of the Court on the Reply of the Commission to paragraph 2.29

The practice whereby national administrations only pay or collect the net balance arising from the total operations effected by one operator is, in fact, acceptable. This practice was not the subject of the comment of the Court, which wishes the total sums corresponding to the refunds to be paid and to the MCAs to be collected to be declared separately, gross, in the accounts submitted by the Member States to the Commission. The levies to be collected and the MCAs to be granted should follow the same scheme.

(1) OJ No L 106, 12. 5. 1971, p. 1.

Trend of monetary compensatory amounts

2.30. Taking into account the imperfect nature of the figures available, which only give a partial net result for expenditure, it is nonetheless worthwhile to consider the changes in total MCAs over the past few years.

Table 10. Share of MCAs in the EAGGF, Guarantee Section expenditure from 1973 to 1979

Year	MCA expenditure	EAGGF, Guarantee Section expenditure	Ratio (%)
1973	140·2 m.u.a.	3 833·1 m.u.a.	3·6
1974	137·6 m.u.a.	3 438·8 m.u.a.	4
1975	378·1 m.u.a.	4 336·3 m.u.a.	8·7
1976	504·7 m.u.a.	5 721 m.u.a.	8·8
1977	859·9 m.u.a.	6 585·8 m.u.a.	13
1978	716·9 MEUA	8 648·9 MEUA	8·2
1979 (1)	809·2 MEUA	9 582·1 MEUA	8·4

(1) Appropriations.

Source:

Document 104/78 of the European Parliament of 9 May 1978.

Two conclusions may be drawn from this table:

(a) the MCA share in the agricultural expenditure of the EAGGF, Guarantee Section is high: around 8 % for the past five years. It is the third largest item of expenditure, after the markets in milk and cereals;

(b) the trend over seven years seems to show that after the peak in 1977, there is again a downward trend, which should, in view of the decisions at the beginning of 1979 to amend the representative exchange rates, become more marked in future.

Effect of dual rate

2.31. MCAs are but one of the elements that make up the agri-monetary expenditure. One should add the amounts under the item 'expenditure resulting from the application of different exchange rates' (Chapter 79 in 1977, Chapter 46 in 1978), commonly called 'the dual rate effect', which has appeared separately in the budget since 1977.

This effect arises from the use of different rates:

(a) the 'green rates' for conversion into national currency of the sums in u.a. of the various measures of agricultural policy;

(b) the budgetary rate, for conversion, in budgetary units of account, of the expenditure incurred in national currencies.

The amounts resulting from these differences are entered under Item 4600 and in 1978 totalled 1 155·4 MEUA (1977: 509·49 m.u.a., 1979: 1 189 MEUA estimated). Consequently, if one adds these sums to the MCAs for each of these three years, the total agri-monetary expenditure will be found to be 1 369 ·3 m.u.a. for 1977, 1 872·3 MEUA for 1978 and 1 998·2 MEUA for 1979, i.e. 20·6 %, 21·5 % of the expenditure and 20·8 % of the appropriations of the EAGGF, Guarantee Section.

This assessment of the dual rate effect is only possible for the financial years 1977 and 1978. Before 1977 the dual rate effect was not separately itemized in the budget, nor will it be after 1978. This does not mean that the effect itself will disappear, since it is linked to the difference between green rates and budgetary rates, which will continue to exist. It will, however, become to all intents impossible to discover its value, which will be scattered among the various budgetary headings of Titles 6 and 7.

The Court would like to know the reasons which, in the opinion of the Commission, justify this change in the presentation of the accounts.

The exchange difference so calculated constituted in the u.a. — IMF system a budgetary saving in the case of expenditure declared by Member States with strong currencies [1] and a budgetary expense in the case of the expenditure declared by the other Member States. The introduction of the EUA in the 1978 budget had the effect of modifying, and sometimes reversing, the relationship between the 'green rates' and the budgetary rates. The dual rate effect became a budgetary expense in all cases except for the expenditure declared by Italy and the United Kingdom (see paragraph 2.32).

In these circumstances the expenditure due to the dual exchange rate is not necessarily bound to diminish and knowledge of changes in it would appear essential for assessing the exact budgetary effects of the agri-monetary operations.

Reply of the Commission to paragraph 2.31

The Court of Auditors rightly points out that a number of changes have taken place in the monetary unit used to express agricultural appropriations, making it difficult to compare expenditure from one year to another; but these changes are the result of the gradual changeover to a new system, i.e.:

(a) the introduction of the EUA into the budget with effect from 1 August 1978, decided by the Council's Financial Regulation of 21 December 1977;

(b) the full alignment of the presentation of EAGGF, Guarantee Section appropriations with the new budgetary definition with effect from 1 January 1979;

(c) the introduction by Council Regulation (EEC) No 3180/78 of the ECU which was incorporated in the Acts of the common agricultural policy by Regulation (EEC) No 652/79.

After these various reforms, the dual rate no longer has the same significant effect as in the past, and this effect is weakening. We are now entering a period of stability in the monetary units used to express budgetary appropriations.

To help in comparing 1979 appropriations with those for 1978, the Commission has converted expenditure into EUA in its preliminary draft budget for 1980; comparable sets of statistics have also been introduced in the Commission's Financial Report on the EAGGF for the financial year 1978.

Modification of the budgetary consequences of the agreement of 25 April 1976

2.32. By the Agreement of 26 April 1976, the Council decided that the intra-Community MCAs granted for importation into certain importing Member States (Italy, United Kingdom) should be paid by the exporting Member States. In the u.a. — IMF system this measure resulted in a fall in MCA expenditure and dual rate expenditure. In the EUA system, on the other hand, the total expenditure (MCA + dual rate) is unchanged but its division between the item MCA and the item dual rate is altered so as to increase the amounts entered under the dual rate, as information notice No VI/226/77 of 15 September 1977 from the Commission demonstrates.

This situation has made necessary the following transfers: Item 4500 (Monetary compensatory amounts on imports paid or collected by importing Member States) — 1 054·19 MEUA; Item 4501 (MCAs on imports paid by exporting Member States on behalf of importing Member States) + 842·6 MEUA; Item 4600

[1] More precisely the countries whose IMF rate was above the 'green rate'.

(Expenditure resulting from the application of different exchange rates) + 440·3 MEUA, about 250 MEUA of which was due to the continued application of Article 2 (a) of Regulation (EEC) No 974/71.

Extension of the application of the agreement under Article 2 (a) of Regulation (EEC) No 974/71 has thus succeeded only in complicating the presentation of the accounts and impairing their veracity.

2.33. The foregoing discussion is evidence of the frequent variations in methods of assessing MCA and dual rate expenditure during the past four financial years.

Table 11. Methods of assessing agri-monetary expenditure

	1976	1977	1978	1979
Budgetary unit of account	u.a.–IMF	AUA for the budgetary headings u.a.–IMF for the total EAGGF, Guarantee Section	AUA for Titles 6 and 7 and Chapters 44 and 45, EUA for the total EAGGF, Guarantee Section	EUA–ECU
Separation of dual rate expenditure	No	Yes	Yes	No
Application of the effect of Article 2 (a) of Regulation (EEC) No 974/71	In part Partial decrease in dual rate and MCA expenditure	Yes Decrease in dual rate and MCA expenditure	Yes Transfer of MCA expenditure to dual rate	Yes

The Court notes that these constant changes cause serious difficulties in understanding the budgetary accounts, particularly comparison of the items of expenditure from one year to the next. It would therefore be preferable if in future a single method of payment of MCAs could be chosen once and for all, and a fixed relationship defined for expressing in the budget the commitments and charging as payments of agricultural expenditure in the course of a given financial year.

FRAUDS, IRREGULARITIES AND GAPS IN THE REGULATIONS

A highly decentralized system of supervision

2.34. The Member States have a general duty of supervision of the implementation of the EAGGF, Guarantee Section expenditure (Article 8 of Regulation (EEC) No 729/70). In practice, a large number of administrative departments (customs offices, agricultural control bodies, public accountants ...) perform this duty on a daily basis.

Based on the activity of these national control bodies, structures have been set up designed to ensure that Community rules governing this field are implemented in a regular and uniform manner.

— Regulation (EEC) No 283/72 (1) is the cornerstone of this edifice. It guides and coordinates the action of the Member States. The latter notify cases of irregularity which they have discovered (Article 3), forward details of new types of frauds or those which are likely to have effects very quickly in the territory of other Member States (Article 4), inform the Commission of the progress of procedures relating to the recovery of sums wrongly paid (Article 5) and carry out official inquiries (Article 6) or unofficial inquiries (known as 'pre-Article 6' inquiries) requested by the Commission. By taking part in various working parties, among which is the 'EAGGF irregularities' working group, they contribute to the level of general information and to the search for gaps in the Regulations (Article 7).

— Directive 77/435/EEC of 27 June 1977 (2) known as 'scrutiny of commercial documents' leaves the

(1) OJ No L 36, 10. 2. 1972, p. 1.
(2) OJ No L 172, 12. 7. 1977, p. 17.

Member States responsible, as from 1 July 1979, for organizing this type of control for some of the undertakings receiving funds from the EAGGF.

— The Special Committee of Inquiry (SCI) which was effectively set up from 1973 to contribute in particular to detecting gaps in the Regulations has been able to work effectively only because it is mainly composed of senior national experts who themselves encouraged acceptance of the inquiry in their respective Member States.

— Directives 76/308/EEC of 15 March 1976 (1) and 77/794/EEC of 4 November 1977 (2) establish the framework of mutual assistance between the Member States in recovering sums which have been wrongly paid.

The Commission's role emerges as one of coordinating and encouraging these activities, in other words it is responsible for ensuring that the supervision system operates properly.

The application of Regulation (EEC) No 283/72

2.35. The absence of a detailed examination of the communications forwarded by the Member States and the fact that some of the information given seems not to be up-to-date, means that the Commission has insufficient knowledge of the national systems.

(1) OJ No L 73, 19. 3. 1976, p. 18.
(2) OJ No L 333, 24. 12. 1977, p. 11.

The information provided by several Member States is late and sometimes inadequate. Requests by the Commission for additional information often receive little response.

In 1978, two Member States accounted for 79 % of the 117 cases reported under Article 3 (88 % of value).

Furthermore, an examination of the notifications sent under Article 4 from 1972 to 1978 reveals that, out of 74 cases notified, one Member State notified 43 (of which more than half concerned overland smuggling) while three Member States did not report any and the others very few.

An analysis of the cases recorded in 1978 shows that there has been a steady decrease in the number of cases reported and a considerable decrease in the amounts concerned. The beef and veal, pigmeat, cereals and milk products sectors appear to be the most affected. Beef and veal represent in value two thirds of the irregularities and three quarters of those concerning monetary compensatory amounts. As this involves cases where MCAs are concerned, the decrease is less significant and the sums involved now represent two thirds of the irregularities reported, which confirms that of the irregularities reported, those relating to intra- or extra-Community trade predominate over those which are purely internal to the Member States.

The fact that a relatively small number of these irregularities relate to customs matters should be compared to the exchange of information between Member States within the framework of the Naples Convention (international convention covering mutual assistance in customs matters which does not relate exclusively to the Community and which appears to give rise to active cooperation between the signatory States).

Table 12. Irregularities established and recoveries made

(MEUA)

Year	1973	1974	1975	1976	1977	1978
Amounts reported	1·499	4·472	3·525	6·135	9·534	3·000
Recovered	0·680	1·188	1·551	2·427	2·197	1·040

On examining the files, it appears that certain Member States encounter difficulties in operating recoveries. In some cases this is due to the fact that the amounts are in fact irrecoverable. In its previous report, the Court stressed the need to declare irrecoverable amounts as such in accordance with Article 24 (2) of the Financial Regulation of 1977 applicable from 1 January 1978. It seems that the Commission has still not implemented this procedure which implies a discretion as to the division of responsibility between the Community and the Member States. It is true that the judgments of the Court of Justice relating to the clearance of the accounts for 1971 and 1972, which were expected to clarifiy Article 8 (2) of Regulation (EEC) No 729/70 defining this division of responsibility, only partially settled the question, without referring to the problem of

irregularities. The responsibility for interpreting and applying the Article at present remains with the Commission.

The Court wishes to know if the Commission intends to draw any inferences from this general picture of the situation.

Gaps in the Regulations

2.36. The Court took special interest in the treatment of a specific case. It concerns a problem which has existed in the rice sector since October 1976. Another case is also mentioned with regard to own resources (see Chapter 12). The problem has existed in the rice sector since 1976.

Rice, which originated in a non-member State, was destined for Rotterdam for onward shipment to Germany, the Netherlands and France, but was first imported into the United Kingdom. After customs clearance had been granted by the United Kingdom authorities, it was immediately sent to the above-mentioned Member States. The advantage in sending the goods this way is firstly that, due to a more favourable 'green rate', the levies collected in the United Kingdom are lower and secondly, that there are no MCAs in the rice sector. The United Kingdom authorities informed the Commission of this traffic in May 1977.

This traffic, involving a minimum of 5·8 MEUA had not up to 31 December 1977 contributed to the increase in the contribution paid by the United Kingdom because of the limits which were set on it at the time. But the shortfall of levy was automatically compensated by an increase in the financial contributions of the Member States whose share was not limited. In 1978, on the other hand, the contributions of the Member States were fixed definitively in the budget (see Chapter 12), so that the continuation of this traffic led to a real reduction in the total resources of the Community.

During 1978 the Commission decided not to introduce MCAs in the rice sector which would have made it possible to close this gap. This decision, which has a considerable effect, appears to have been taken without sufficient knowledge of the extent of the three-way traffic concerned. There is no trace of any report, proposals or summary of a meeting on the subject.

The Court was told that the introduction of MCAs would have an adverse influence on the market. In the absence of any working document, it is not possible to judge the accuracy of this assertion, or to ascertain whether alternative solutions have really been sought.

Whatever the facts may be, one year elapsed between the time when the Commission became aware of this 'loophole' (May 1977) and the time when it took a decision (mid-1978) which, in fact, leaves the problem unsolved.

This is perhaps due to the incomplete nature of the rules relating to 'loopholes' in the Regulations. The Regulations do make provisions for the way in which such omissions should be remedied (Article 7 (4) of Regulation (EEC) No 283/72) but nowhere do they lay down any specific obligation to report them.

Reply of the Commission to paragraph 2.36

The Commission would point out that the specific case of rice is an example of a 'loophole' which can theoretically occur for any agricultural product to which monetary compensatory amounts do not apply. The problem is to know whether the difficulties created justify the introduction of monetary compensatory amounts. Since the difficulties are primarily the result of currency disparities and that these are tending to diminish — particularly with regard to the United Kingdom — and that the Commission would like to see monetary compensatory amounts disappear altogether, the Commission is not convinced of the advisability of extending the system to new products.

With regard to the notification of loopholes pursuant to Article 7 (4) of Regulation (EEC) No 283/72, this provision was implemented in 19 cases.

In this context, emphasis should be placed on the role played by the management committees in the common organizations of the market. It is also the responsibility of these committees to draw the Commission's attention to loopholes in the Regulations in their own specific sectors and to help remedy the situation immediately. Although there are no relevant statistics available, the host of amendments to Regulations published each year in the Official Journal is an indication of these efforts.

Operation of the system

2.37. In the view of the Court, it is not possible at this stage of the examination to question the principles and structure of the surveillance system mentioned above, although the weaknesses which it reveals are perhaps essentially related thereto.

It could be of advantage to decentralize the fight against irregularities, in order to respect the autonomy of the Member States in sensitive areas of their administration, while at the same time ensuring cohesion and efficiency within the Community by centralizing information, provided the system operates properly.

The surveillance mechanism should serve two purposes. The first is effectively to suppress frauds on the ground. There is every reason to think — particularly from the on-the-spot investigations carried out by the Court — that the results vary considerably between the Member States. The second is to ensure, at the centre, exchanges of information between the authorities concerned: the Member States and the Commission. Here, there are numerous signs of deficiencies, attributable both to the Member States and to the Commission.

Although the Court attaches considerable importance to combating fraud and irregularities on the ground, it does not intend at this stage to assess the activity of the various Member States in this respect. The Court would note, however, that the great difference in the number of cases reported by the Member States can have only three explanations — different number of irregularities, varying efficiency of the national controls, more or less frequent recourse to Community information and cooperation procedures — and is probably not confined to the first.

Of the two other explanations, the latter certainly provides strongest grounds for the considerable differences established. Although the Court can only regret the sometimes dissimilar results of the internal audit authorities it is more difficult for it to accept the resistance of certain Member States to letting the Community as a whole benefit from their knowledge that irregularities were committed on their territory.

From the statistics it appears that Member States are more inclined to invoke the Community when it is a question of highlighting the difficulties of their partners or of resolving a problem whose consequences they are likely to suffer. It would be better if the Member States understood that their duty to effect controls would be easier to implement if they could base themselves on a network of information in which they owe it to themselves to take an active part.

It is clear, however, that the Commission, by better performing its role as motive force, could make this cooperation more spontaneous. Thus the Court noted with interest the efforts undertaken jointly by the Commission and the Member States to prepare for the entry into force on 1 July 1979 of the Directive on the scrutiny of commercial documents. The organization and subsequent utilization of the work of a seminar attended by experts from the Member States provided a fruitful comparison of the various national experiences and useful information about the solutions adopted or envisaged, as well as the difficulties encountered in the different Member States.

Reply of the Commission to paragraphs 2.35 and 2.37

(a) The Commission is aware of the fact that, as yet, there has been no detailed examination of the communications (made by the Member States in accordance with Article 2 of the Regulation) of the provisions laid down by law, regulation or administrative action relating to the national control systems; in the annual financial reports the attention of the Member States, the Audit Board and the Parliament has, since 1975, been drawn to this matter by the Commission by stating that this important work could not yet begin because of other priority activities to combat irregularities.

However, some national control measures have been discussed by the EAGGF irregularities group when examining cases of irregularity. This was the case, for example, of the documentary procedures and other official procedures used to control EAGGF payments on export refunds and monetary compensatory amounts.

(b) It is true that there is an imbalance in the communications made by the Member States in accordance with Articles 3 and 4 of the Regulation and that there is also a steady decrease in the number of cases reported; however, some explanation should be given about the two Member States which have communicated the largest number of cases in accordance with Article 3.

Between 1971 and 1978 Germany declared 369 cases, 154 of which were concerned only with one special measure in the cereals sector (Intervention B) which was applied only in that country and for a very limited period. Since 1973 the United Kingdom has communicated 232 cases, 130 of which were concerned with the non-payment of MCAs because of a shortcoming in the collection system applied by that Member State.

This system was improved more than a year ago.

When these cases are deducted, the annual number of cases is thus around 100.

The 'considerable decrease' in the amounts concerned, shown in Table 12, prompts the Commission to comment that 1976 and 1977 were marked by the discovery of a number of spectacular cases involving a large amount of money, some of which had extended over several years. It may thus be noted that:

— in 1976, nine cases (3·8 % of the total) involved 3·3 m.u.a., and

— *in 1977, nine cases (5·9 % of the total) involved 6·1 m.u.a.*

The Commission is therefore of the opinion that in view of the above analysis, the figures for 1978 (117 cases involving 3 m.u.a.) do not signify any decline in controls or in the system of communications.

(c) *The Commission believes that the difference in the number of cases reported by the Member States may be explained by the following factors:*

— *varying interpretations of the term 'irregularities',*

— *differing instructions to out-stations departments by the department centralizing the data at national level.*

Since Regulation (EEC) No 283/72 came into effect, the Commission and the Member States have agreed on the interpretation to be given to the term 'irregularity'. However, practical application seems to demonstrate the need for dealing with this problem in greater detail; the EAGGF departments are currently examining it.

(d) *The Court rightly states that no solution has yet been found to the problem of charging the amounts definitively lost as a result of the irregularities; the Council's negotiations on Regulation (EEC) No 283/72 failed to resolve this problem. The Commission confirms its intention of resuming the examination of this problem as soon as this is administratively possible.*

MANAGEMENT OF MARKETS

Development of expenditure by market

2.38. An examination of the amount of expenditure assigned to each chapter of the budget over five years, as set out in Table 17, reveals the following facts:

— the lead held by the milk and milk products market emerges clearly; this item represents nearly half the total of agricultural expenditure for 1978,

— cereals comprise the second item: its relative size has increased over the five years; the growth is considerable and regular,

— the sugar sector was particularly large in 1978; growth is continuous whereas expenditure on beef and veal fluctuates,

— fats, oils and tobacco are about average but tobacco expenditure is not growing as fast,

— the products not listed in Annex II have reached a scale comparable with that of the tobacco market; this is a new development,

— expenditure on fruit and vegetables and on other markets has been subject to considerable fluctuation.

Budgetary forecasting

2.39. Within the Directorate-General for Agriculture, budgetary forecasting is one of the important tasks of the EAGGF Directorate working in liaison with the directorates responsible for individual markets. The basic information on the market situation is supplied by the latter directorates to the EAGGF Directorate, which then expresses the phenomena recorded in budget terms.

The procedure consists in drawing up a preliminary draft budget, then a draft budget and, if need be, a correcting letter in order to arrive at the budget itself. The figures for estimated expenditure are finalized as the information on which they are based becomes more certain. This work may be based on documents produced by the Commission called 'working document for making estimates of the expenditure of the EAGGF, Guarantee Section' which are regularly revised up to December.

The task of forecasting is particularly difficult for the EAGGF staff, for a variety of reasons: agriculture and currencies have aspects which are difficult to control and Community aids apply only to a part of agricultural production — that part taken into intervention or which crosses frontiers. As a result a small error in Community and world crop forecasts sometimes has serious repercussions in the budgetary estimates.

While admitting these difficulties the Court must call attention to certain facts which cannot be explained as the inevitable hazards of forecasting, such as the underestimation of EAGGF, Guarantee Section expenditure at the outset of the budgetary process and the persistent underestimation or overestimation of certain chapters (cf. 2.19 above). Mention must also be made of a tendency to maintain in each budget a number of small appropriations which are never used: such as the appropriations in Items 6811, 6910 and 7110 (1).

(1) 6811: Processing and distribution operations (fruit and vegetables).
6910: Aid for private storage (wine).
7110: Withdrawal and buying in (fishery products).

Finally, the Court has noted a complete lack of refined forecasting techniques for fruit and vegetables, products under Chapter 73 and products not listed in Annex II to the Treaty of Rome.

Reply of the Commission to paragraph 2.39

The Commission is gratified to note that the Court of Auditors realizes the difficulties in forecasting expenditure by reason of the numerous factors involved and the often rapid changes in the estimated trend in expenditure. The Commission is aware of the importance of agricultural forecasts for the Community budget and is constantly endeavouring — within the limits of its administrative capabilities — to improve forecasting techniques.

Other matters under discussion with the Commission

2.40. Outside the framework of this present report, the Court has also addressed comments to the Commission in the form of letters from its President. These comments cover a number of matters relating to the EAGGF, Guarantee Section, including:

— the sale at reduced prices of butter intended for consumption in the Community (the so-called 'Christmas butter' operation),

— the milk co-responsibility levy (1977 to 1978),

— export refunds on products not contained in Annex II to the Treaty of Rome.

The Court is now studying the replies of the Commission to the points raised in its comments.

CHAPTER 31: EXPENDITURE IN THE AGRICULTURAL SECTOR

2.41. The examination of Chapter 31 'Expenditure in the agricultural sector' calls for the following comment from the Court on Article 313 relating to the Community network of agricultural information.

There were considerable cancellations of appropriations even after carry-over. In 1978, 90·5 % of appropriations brought forward were cancelled, this may indicate either excessive delay in payments or bad estimating. Estimates are based on the number of statements, duly completed, which are sent to the Commission and concern the year in question. But the statements for year (t) are received in year (t + 1) and payments made in year (t + 2) before 30 June.

In these circumstances the Court considers that it would be simpler and more accurate to make estimates on the basis of the previous year.

Reply of the Commission to paragraph 2.41

With regard to the Community accountancy data network, the Commission proposed in its preliminary draft budget for 1980 to introduce differentiated appropriations for Article 313. Accordingly, the financial management will be better suited to the specific characteristics of this accountancy data network.

GENERAL CONCLUSIONS

2.42. In paragraph 2.3 the Court pointed out that as far as the EAGGF, Guarantee Section is concerned, the factors governing expenditure are mainly external to the budgetary procedure. The Court is not thereby seeking to deny the importance of the latter procedure; on the contrary, the intention is to emphasize the need to exploit every available means. The budgetary procedure is never 'neutral'. Whatever the special characteristics of the agricultural markets sector, it can, according to the way in which it is applied, equally contribute to the control or lack of control of expenditure. This may occur at three levels: (i) the planning and implementation of measures to organize the market; (ii) the presentation of the budget and the accounts; (iii) internal control and the audit.

2.43. Measures to organize the market have financial effects — which should be assessed — at the stage both of their conception (basic Regulations) and of their implementation (Regulations and implementation Decisions). But the complexity of the rules and the special problems of each different product mean that each of the 17 market organizations is inclined to operate on its own account: thus the central budgetary operation tends to be subordinate to manifold technical restraints and not the other way round. It is one thing to assess annually the budgetary effects of the existing measures and then to adjust the appropriations during the year; it is something that can be done, even if poorly. It is another to review executive measures constantly, so that options emerge in the light of budgetary constraints. It is not inconceivable that even if the final compromise must, at least temporarily, escape these constraints, the Commission should point them out as part of its duty to analyze the situation and to make proposals accordingly.

2.44. Presentation of the budget and the accounts cannot ignore clear options put to the decision-making authority or pertinent criticism by the auditing authority. From this viewpoint the classical principles of universality, annuality and specificity remain entirely valid. From the foregoing, the least that can be said is that they are applied with varying degrees of strictness to the EAGGF, Guarantee Section.

(a) In accordance with the first of these principles, which is reflected in Article 199 of the Treaty, all expenditure charged to the Fund should appear as such, and not be subsumed under some item of revenue. This is not the result with the practice of negative appropriations which in 1978 amounted to some 624·5 MEUA, reducing by as much the actual expenditure, or with compensation effected in respect of MCAs with either own resources (levies) or expenditure (refunds).

(b) The rule of annuality (Article 202 of the Treaty and Article 5 of the Financial Regulation) implies the following: a minimum of stability in the nomenclature, which has hardly been the case in more recent financial years; exceptional, not systematic, use of the practice of carry-overs, which in 1978 were applied to purposes completely different from those of the previous financial year; a reduction of the periods for final clearance, so that it is possible to identify clearly the expenditure of the most recent financial years, which is obviously not the case if the 1973 expenditure is cleared in 1979 and that for 1974 or 1975 in 1980.

(c) The rule of specificity is not easy to follow since it cannot be imposed on advances made to the Member States under Article 96 of the Financial Regulation. Thus transfers from one chapter to another, although by Article 101 of the Financial Regulation dependent upon a Council Decision, are readily presented by the Commission as adjustment transfers, included in the total sum of appropriations for the Fund (Titles 6 and 7). Undoubtedly such expenditure as is declared by the Member States should be recorded in some manner, subject to clearance. The question arises, however, whether the repeated entry of appropriations under headings which are systematically under-utilized does not amount to creating hidden reserves within the Guarantee Section — obviously a more convenient practice than having to have recourse to supplementary budgets or normal reserves which require a decision of the budgetary authority.

2.45. Internal control is part of a complex system in which the Commission itself bears more responsibility or less, according to whether it concerns the establishment and management of the funds, the clearing of expenditure or the prevention and the suppression of frauds and irregularities.

(a) Periodical and exceptional advances made to the Member States call for a check on the fulfilment of their duty under the Regulations to see that appropriations are utilized without delay and solely for the purposes intended, and in general to ensure the sound financial management of the Community financial resources made available to them. This check has yet to be carried out in such a way as to prevent surpluses of liquid assets from which certain States profit, and which are no incentive to a strict audit of expenditure.

(b) Expenditure is only finally chargeable to the Fund in so far as it has been made in accordance with the Community Regulations. It is this control of compliance (regularity) which the Commission has to carry out as part of the clearing procedure and which enables it, where necessary, as the Court of Justice has confirmed, to reject, out of hand, expenditure recognized as inconsistent. The delay with which this control continues to be carried out results not only in the lack of clarity in the accounts mentioned above, but also in a lack of interest in compliance, which should be the first concern of Member States. Indeed, it has the opposite effect: that of encouraging them systematically to dispute the Commission's clearance decisions when they finally arrive four to six years after the operations in question.

(c) The prevention and suppression of frauds and irregularities and the recovery of sums wrongly paid are the basic responsibility of the Member States, who, according to the Regulations, are to take the necessary measures and inform the Commission. The responsibility of the latter, however, arises by virtue of the financial consequences of these irregularities or the negligence that engendered them since it is the Community that has to bear the financial cost, unless it results from irregularities or negligence attributable to the administrations of the Member States (Article 8 of Regulation (EEC) No 729/70). The implications of this text have neither been specified in Regulation (EEC) No 283/72 relating to irregularities affecting the common agricultural policy nor clarified by the most recent judgments of the Court of Justice. The result is that, in the absence of an effective penalty, national and Community responsibilities are confused, a situation which does not encourage the Member States to be attentive to what, in reality, are their duties. It does not appear that the Commission, which remains in any event responsible for recovering debts owing from either third parties or the Member States, has fulfilled its duty to take the initiative on this point.

2.46. In a system as complex as that governing the financial management of the EAGGF, Guarantee Section, the external audit cannot be satisfactorily carried out unless the principal elements of the system

are also functioning satisfactorily. In other words, the conditions upon which the progress of the Court's work depends for the most part correspond to the major difficulties encountered by the financial mechanisms of the EAGGF in their operation.

This is the case first of all with time limits. Observance by the Court of the time limits for its audit depends upon the time limits for implementation being respected. The additional period for taking guarantee expenditure, including final transfers, into the accounts of the Commission at present ends on 31 March, as opposed to 15 January for other expenditure. This period shortens by the same amount the time in which the Commission may make adjustments (carry-overs, cancellations), which must be in their final form in the revenue and expenditure account presented on 1 June.

These are tight deadlines for the Commission, which is sometimes hard put to meet them. But the same is true for the Court, which must complete its audit in time to send its observations to the Commission.

Secondly, there is the question of the character of the accounts to be sent to the Court. Whatever the deadlines laid down for their presentation, the accounts must be in as final a state as possible. An account likely to be examined by the Court, with a view to the granting of discharge by the budgetary authority, must be one in which the amount of commitments (and also, if possible, payments) carried out, and above all the amount of open credits, are the final figures. For example, as regards open credits, this means that no carry-over or transfer should be possible after the date of presentation of the accounts. In the opinion of the Court this principle should be particularly borne in mind as regards the EAGGF, Guarantee Section.

This is also the case with regard to the clearing of accounts (see paragraph 2.28, last subparagraph). The time limit of nine months, after the additional accounting period, (which must be kept if the Parliament is to give its discharge after due consideration by 30 April of the second year following) is not respected. It is undoubtedly difficult to do so under the present practice, but the conclusion is that it would be well to change the practice — making it more strict, not more lax.

There is no reason why the expenditure on the basis of which the audit of final clearance is effected should not be that used for calculation of the expenditure recorded in the revenue and expenditure account. It should be possible to begin this audit immediately upon the close of the additional period, whatever the speed at which the paying agencies forward their closing statements.

If an earlier start is thus made, the audit should continue at a faster pace. Thus by the end of the first year following the financial year in question the areas of conflict could probably be identified, and a decision to accept or reject be made in regard to them and interim measures of protection defeasible at the end of one year, in default of further decision, be settled in regard to the remainder.

One of the reasons why the audit of final clearance is not satisfactory at present appears to be that, although it constitutes a control by the authorizing officer for the purpose of final adoption of the expenditure, it is not recognized as an essential component of current administration. To some extent it stands apart from the latter, instead of being closely associated with it, as appears to have been the initial aim of Regulation (EEC) No 729/70. To return to what was a rule of sound management in the design of the present system of financing, the Commission should without a doubt cease to grant advances unconditionally, as it has been in the habit of doing. On the contrary, it should submit all such requests to a double test: whether there is a real need for liquid funds and whether the expenditure will be made punctually.

In spite of the apparent difficulty of the undertaking, it would undoubtedly be more efficient to withhold the funds beforehand than to recover them afterwards; this is of course on the assumption that sound management of finances amounting to three quarters of the budgetary resources is recognized as a common objective.

2.47. Finally the Court, which is aware of the implications of the growing controversy surrounding the common agricultural policy from the point of view of the management of markets, wishes to emphasize that the budget and the accounts ought to provide the key to the truth about the costs of this policy. This is why the Court insists on the abandonment of various procedures tending either to reduce the expenditure shown (compensation, negative appropriations) or to transfer it from one financial year to another, whether by postponing (carry-overs) or bringing forward (depreciation), or to split it between different titles (premiums for non-marketing, fisheries, refunds on products intended for food aid). Nevertheless, the truth about the cost of the CAP also lies beyond the bounds of the budget for it is sometimes affected by financial consequences, not entered in the accounts, arising from measures, such as commercial agreements, which are based on other policies. It would be salutary to attempt to include these factors in an account, though it would be difficult both politically and technically.

Table 13. Transfers: movements of appropriations

(EUA)

Date of proposal	Date of decision	Transfer within a chapter	Transfer from chapter to chapter
22. 4. 1978	27. 4. 1978	15 000 000	
22. 4. 1978	28. 4. 1978	150 500 000	
9. 6. 1978	23. 6. 1978	302 000	
23. 6. 1978	11. 7. 1978	710 000 000	
20. 7. 1978	31. 7. 1978	60 000 000	
10. 10. 1978	20. 10. 1978	51 000 000	
10. 10. 1978	20. 10. 1978	5 000 000	
10. 10. 1978	20. 11. 1978		16 000 000
23. 11. 1978	5. 12. 1978	11 400 000	
7. 12. 1978	21. 12. 1978	240 000 000	
7. 12. 1978	10. 1. 1979	95 401 200	
7. 12. 1978	1. 2. 1979	170 000 000	
7. 12. 1978	12. 2. 1979		829 000 000
6. 2. 1979	13. 2. 1979	1 198 800	
26. 3. 1979	9. 4. 1979	155 622 800·12	302 384 902·37
	Total	1 665 424 800·12	1 147 384 902·37
Total movements of appropriations		2 812 809 702·49	

Table 14. Actual dates of commitments and charging up of payments

Month	Date specified by Article 97 of the Financial Regulation (1)	Proposal of authorizing officer	Approval of financial controller	Entry in accounts
January	20. 4.	9. 6. 78	21. 6. 78	30. 6. 78
February	20. 5.	29. 6. 78	26. 7. 78	31. 7. 78
March	20. 6.	14. 8. 78	8. 9. 78	18. 9. 78
April	20. 7.	9. 10. 78	18. 10. 78	27. 10. 78
May	20. 8.	6. 10. 78	27. 10. 78	30. 10. 78
June	20. 9.	27. 10. 78	22. 11. 78	23. 11. 78
July	20. 10.	4. 12. 78	11. 12. 78	19. 12. 78
August	20. 11.	4. 12. 78	22. 12. 78	31. 12. 78
September	20. 12.	21. 12. 78	21. 2. 79	22. 2. 79
October	20. 1.	31. 1. 79	6. 3. 79	7. 3. 79
November	20. 2.	14. 2. 79	6. 3. 79	7. 3. 79
December	20. 3.	5. 3. 79	26. 3. 79	27. 3. 79
(Second category)	31. 3.	13. 3. 79	26. 3. 79	27. 3. 79

(1) This is two months after the date on which the monthly statements must be forwarded by the Member States (Regulation (EEC) No 380/78). Sole exception: corrected declarations under second category expenditure (public storage) must be made no later than 20 February and entered in the accounts no later than 31 March, the end of the additional period.

Table 15. Transfers of appropriations in 1975, 1976, 1977 and 1978

Chapter	Heading	1975		1976		1977		1978	
		Transfers (m.u.a.)	% of initial appro-priations	Transfers (m.u.a.)	% of initial appro-priations	Transfers (m.u.a.)	% of initial appro-priations	Transfers (MEUA)	% of initial appro-priations
	Over-valued appropriations:								
60	Cereals	− 15·3	2·6	− 51·9	7·5	− 156·7	20·5	− 428·7	30·0
61	Rice	− 0·6	12·7	− 1·6	5·3	—	—	− 19·9	54·3
63	Oils and fats	− 41·9	58·2	− 130·7	29·6	− 56·0	13·5	− 79·4	19·2
66	Pigmeat	− 1·0	1·5	− 25·3	36·6	− 45·0	50	− 46·2	54·7
	Under-valued appropriations:								
62	Milk and milk products	− 16·3	1·4	+ 132·2	6·6	+ 51·8	2·1	+ 478·4	16·4
	Others:								
64	Sugar	− 15·2	4·7	− 38·8	40·7	+ 131·5	31·8	− 42·3	5·2
65	Beef and veal	+ 139·0	17·5	− 103·0	13·7	—	—	+ 105·9	22·9
67	Eggs and poultrymeat	− 7·6	47·5	− 6·5	32·5	—	—	+ 8·3	32·6
68	Fruit and vegetables	+ 4·5	5·4	+ 89·0	56·4	+ 40·0	27·1	− 39·0	28·0
69	Wine	− 83·0	40·6	+ 23·0	15·2	—	—	− 161·8	72·1
70	Tobacco	+ 12·2	5·6	+ 23·0	11·0	+ 6·0	2·9	− 27·4	11·5
71	Fisheries	+ 1·9	25·3	+ 5·0	83·3	—	—	− 4·0	22·2
73	Other products	+ 1·9	3·4	+ 6·0	8·7	—	—	+ 17·9	28·1
74	Products not listed in Annex II	+ 6·0	34·8	+ 28·0	70·0	+ 80·0	166·6	+ 64·4	53·7

Table 16. Trend of EAGGF expenditure declared by the Member States adjusted for the effects of applying Article 2a of Regulation (EEC) No 9741 (1)

Member State	1971		1972		1973		1974		1975		1976		1977		1978	
	m.u.a.	MEUA	m.u.a.	MEUA	m.u.a.	MEUA	m.u.a.	MEUA	m.u.a.	MEUA	m.u.a.	MEUA	m.u.a.	MEUA	m.u.a.	MEUA
Belgium	99·4	97·7	128·1	129·9	193·1	202·0	148·2	159·7	176·7	193·9	327·4	379·5	377·8	471·1		558·8
Trend		48·4		64·3		100		78·9		96·0		187·9		233·2		276·6
Denmark	—	—	—	—	295·4	298·7	286·4	295·9	312·7	329·3	355·9	401·5	428·0	485·4		567·8
Trend						100		99·1		110·2		134·4		162·5		190·1
Germany	392·1	393·6	492·4	503·9	675·9	755·0	577·8	685·8	596·3	715·7	850·2	1 116	1 112·6	1 585·2		2 316·1
Trend		52·1		66·7		100		90·8		94·8		147·8		209·9		306·8
France	600·7	578·0	913·4	896·8	1 094·7	1 112·0	684·6	663·1	1 175·4	1 227·3	1 366·5	1 424·8	1 310·3	1 291·4		1 450·9
Trend		52·0		80·6		100		59·6		110·4		128·1		116·1		130·5
Ireland	—	—	—	—	88·9	73·7	153·0	125·0	245·3	182·4	166·5	89·4	400·1	183·6		341·3
Trend						100		169·6		247·5		121·3		249·1		463·1
Italy	213·4	206·0	573·6	547·9	624·0	544·3	529·3	426·4	928·9	717·1	1 109·9	763·8	1 281·2	913·7		1 165·6
Trend		37·8		100·7		100		78·3		131·7		140·3		167·9		214·1
Luxembourg	1·4	1·4	1·9	1·9	5·4	5·6	2·0	2·2	5·4	5·9	8·1	9·4	8·0	9·9		23·9
Trend		25		33·9		100		39·3		105·4		167·8		176·8		426·8
Netherlands	264·2	261·5	337·1	339·0	530·3	559·9	458·2	517·9	472·3	545·4	696·1	871·2	723·9	983·2		1 094·9
Trend		46·7		60·5		100		92·5		97·4		155·6		175·6		195·6
United Kingdom	—	—	—	—	151·8	125·9	267·7	218·8	814·6	605·8	689·4	531·5	1 020·7	906·9		1 153·4
Trend						100		173·8		481·2		422·2		720·3		759·8
Total	1 571·2	1 538·2	2 446·5	2 419·3	3 659·5	3 677·1	3 107·2	3 094·8	4 727·6	4 522·8	5 570·0	5 587·1	6 662·6	6 830·4		8 672·7

(1) The figures for the financial years 1976, 1977 and 1978 have been adjusted in accordance with the effects of the 'exporting Member States paying intra-Community MCAs for importing Member States' system (cf. paragraph 2.32). They therefore do not represent the expenditure declared by the Member States, but the amounts of expenditure chargeable to each Member State after redistributing the intra-Community MCAs paid by the exporting Member States. The trend is calculated against the base year 1973.

Conversion into MEUA is made by multiplying the amount in u.a. by the average annual EUA/u.a. rate for each country.

Table 17. Evolution of expenditure declared by product

(MEUA)

Chapter \ Year	1974		1975		1976		1977		1978	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
60 Cereals	383·0	12·5	589·3	13·0	655·9	11·7	629·9	9·2	1 112·5	12·8
61 Rice	1·0	0	3·4	0	18·4	0·3	13·5	0·2	17·9	0·2
62 Milk and milk products	1 257·9	40·7	1 193·7	26·4	2 277·7	40·8	2 924·1	42·8	4 014·7	46·3
63 Oils and fats	120·1	3·9	187·8	4·2	247·1	4·4	268·5	3·9	324·8	3·7
64 Sugar	106·1	3·5	271·2	6·0	229·3	4·0	598·4	8·8	878·0	10·1
65 Beef and veal	322·1	10·5	923·3	20·4	615·9	11·0	467·7	6·8	638·7	7·4
66 Pigmeat	69·7	2·4	56·9	1·3	29·0	0·6	37·3	0·6	45·0	0·6
67 Eggs and poultrymeat	18·2	0·6	9·4	0·2	15·1	0·3	25·6	0·5	38·1	0·5
68 Fruit and vegetables	58·5	1·3	72·6	1·6	185·1	3·3	178·2	2·6	100·7	1·2
69 Wine	41·0	1·3	141·3	3·1	133·8	2·4	89·9	1·3	63·7	0·7
70 Tobacco	166·4	5·4	200·5	4·4	185·4	3·3	205·2	3·0	216·1	2·5
71 Fisheries	1·2	0	10·0	0·3	11·0	0·2	8·8	0·1	15·4	0·2
73 Other products	36·4	1·2	58·8	1·3	76·2	1·4	56·6	0·8	91·0	1·0
74 Products not listed in Annex II	13·7	0·4	23·9	0·5	67·0	1·2	136·3	2·0	208·5	2·4
44 Accession compensatory amounts	346·4	11·3	444·8	9·8	402·0	7·2	201·1	2·9	27·3	0·3
45 Monetary compensatory amounts	153·5	5·0	335·6	7·5	438·2	7·8	989·2	14·5	880·3	10·1
Total	3 095·2	100·0	4 522·5	100·0	5 587·1	100·0	6 830·3	100·0	8 672·7	100·0

For 1977 and 1978, the amounts corresponding to the effect of the 'dual exchange rate' (cf. paragraph 2.31) have been distributed among the various chapters so that the expenditure may be expressed in EUA.

For the years 1974 to 1977, the conversion from u.a. to EUA has been made on the basis of appropriate coefficients for each financial year and each Member State.

CHAPTER 3 — EAGGF, GUIDANCE SECTION

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PART ONE: THE FINANCIAL MANAGEMENT FOR THE FINANCIAL YEAR 1978

Development of financing

3.1. The financing of the Guidance Section began in 1964 with Regulation No 17/64/EEC of 5 February 1964 (1) which determined the conditions of aid from the Fund to investment projects for the improvement of agricultural structures. As from 1966, various special measures have also been financed.

Regulation (EEC) No 729/70 of 21 April 1970 (2) defined the limits of financing and specified its priorities: the Guidance Section finances common measures designed to fulfil the objectives of Article 39 (1) (a) of the EEC Treaty.

The annual allocation provided for by this Regulation amounts to 285 m.u.a. (3). The residual appropriations may be used for the financing of individual projects under Regulation No 17/64/EEC as well as special measures. Successive Council Regulations have stipulated that the unutilized balance of the allocation should be placed in reserve, to finance subsequent projects ('Mansholt reserve').

In practice, the system of financial support for individual projects set up by Regulation No 17/64/EEC constituted until 1977 the principal means of financing by the Guidance Section.

Appropriations available for the financial year 1978

3.2. For Title 8 'EAGGF, Guidance Section' the 1978 budget authorized:

— 473·5 MEUA in commitment appropriations, and

— 423·5 MEUA in payment appropriations.

According to the budgetary remarks, the commitment appropriations were covered, to the amount of 325 million EUA, by the annual allocation provided in Article 6 (5), revised, of Regulation (EEC) No 729/70 and, for the balance, by the part of this annual allocation placed in reserve for the years 1969 to 1977 and which amounted to 531 089 932 EUA (OJ No L 36, 6. 2. 1978, p. 415).

It should be noted that it is only in the budgetary remarks that there is mention of that part of the appropriations to be financed by the reserve. The management of this latter would certainly gain from being subject to more precise and formal rules, in particular the provision that a statement of the reserve be drawn up at the close of implementation of the budget, for example in the analysis of the revenue and expenditure account.

(1) OJ No 34, 27. 2. 1964, p. 586/64.
(2) OJ No L 94, 28. 4. 1970, p. 13.
(3) The allocation was increased to 325 m.u.a. per annum from 1973 following the enlargement of the Community (Regulation (EEC) No 2788/72, OJ No L 295, 30. 12. 1972, p. 1).

3.3. To the initial appropriations were added commitment appropriations of 26 633 852 EUA remaining from 1977, a sum which corresponds to that of 23 456 774 u.a. appearing at the close of the financial year 1977 and converted from u.a. into EUA on the basis of the commitments in national currency and the rate of exchange at 2 January 1978. The appropriations recovered in 1978, in accordance with Regulation (EEC) No 3171/75(1), amounted to 12 010 933 EUA.

The allocation under Title 8, on the other hand, was increased by 21 million EUA in transfers, both as commitment appropriations and as payment appropriations, for the fisheries sector, i.e. five million EUA for modernization and conversion of non-industrial inshore fisheries and 16 million EUA for the surveillance of the Community fishing zone.

3.4. The total of commitment appropriations available in 1978 for Title 8 thus amounted to 533 144 785 EUA. The distribution of this sum between the various chapters, articles and items gave rise to several transfers, totalling 113·3 MEUA which considerably changed the initial estimates, mainly to the benefit of the individual projects, albeit less markedly than in previous years.

The initial allocations did not include any appropriations for Chapter 80 for the individual projects provided for under Regulation No 17/64/EEC. A transfer of 70 MEUA within Title 8 was decided by the Council (Regulation (EEC) No 2992/78 of 19 December 1978 (2)), by way of derogation from Regulation (EEC) No 729/70.

Since the allocation of 325 m.u.a. was completely absorbed by common measures, Chapter 80 could not in fact, on the basis of Regulation (EEC) No 729/70 referred to above, be provided with commitment appropriations.

3.5. The following table which outlines the development of the appropriations available in 1978 shows that the appropriations for the financing of the four basic Directives to reform agricultural structures (Items 8100 to 8103) were reduced by a transfer of 57·5 MEUA, i.e. of 37 %; this illustrates the difficulties in applying these Directives in the Member States, since the appropriations were intended to cover the reimbursements requested of the EAGGF by the Member States.

Considerable reductions in appropriations also occurred for conversion in the wine sector (Item 8350) and the eradication of diseases in cattle (Item 8370). For the first of these items the appropriations were not used because one Member State did not forward a request for reimbursement before the end of the financial year. With regard to diseases in cattle, the national eradication plans were approved in 1978 and the requests for reimbursement will reach the EAGGF only at a later date.

(1) OJ No L 315, 5. 12. 1975, p. 1.

(2) OJ No L 357, 21. 12. 1978, p. 3.

Table 18. EAGGF, Guidance Section: 1978 commitment appropriations

Item or Chapter	Heading	Initial budgetary appropriations (MEUA)	Initial allocation (%)	Transfers (MEUA)	Appropriations remaining (EUA)	Total appropriations available (EUA)	Final allocation (%)
80	Individual projects, Regulation No 17/64/EEC	Token entry	0	+ 70	12 010 933 (1)	82 010 933 (1)	15·4
	Directives:						
8100	72/159/EEC	48·8		− 17·3	3 436 541	34 936 541	
8101	72/160/EEC	0·7		—	2 593	702 593	
8102	72/161/EEC	5·5		—	21 823	5 521 823	
8103	72/268/EEC	100·3		− 40·2	1 189 340	61 289 340	
81		155·3	32·8	− 57·5	4 650 297	102 450 297	19·2
8200	Producer groups	Token entry		—	3 597 796	3 597 796	
8201	Hop producers	1		—	1 189 968	2 189 968	
8202	Regulation (EEC) No 355/77 projects	80		+ 42	—	122 000 000	
82		81	17·1	+ 42	4 787 764	127 787 764	24
8302	Non-industrial inshore fishing	Token entry		+ 5	—	5 000 000	
8303	Surveillance of fishing zone	Token entry		+ 16	—	16 000 000	
8310	Development of beef and veal	13·2		—	9 089 486	22 289 486	
8322	Reorganization of fruit production	4·2		—	1	4 200 001	
8350	Development wine sector	33		− 16·8	—	16 200 000	
8360	Non-marketing of milk	123·9		—	7 971 356	131 871 356	
8370	Cattle diseases	39		− 39	—	—	
83		213·3	45	− 34·8	17 060 843	195 560 843	36·7
8900	Fruit and vegetables production	1·5		+ 1·1	—	2 600 000	
8930	Citrus fruits sector	22·3		—	134 948	22 434 948	
8940	Fisheries sector production	0·1		+ 0·2	—	300 000	
89		23·9	5·1	+ 1·3	134 948	25 334 948	4·7
	Total	473·5	100	+ 21	38 644 785 (1)	533 144 785 (1)	100

(1) Including a sum of 12 010 932·80 EUA released and re-usable in accordance with Council Regulation (EEC) No 3171/75.

Commitments for the financial year 1978

3.6. Commitments for the financial year 1978, the total of which amounts to 279 269 850 EUA, may be broken down as follows:

Table 19

Chapter	Heading	Appropriations available (EUA)	Commitments (EUA)	%
80	Projects for the improvement of agricultural structures	82 010 933	12 010 933	14·6
81	Common measures for the reform of agricultural production structures	102 450 297	65 488 701	63·9
82	Common measures concerning the marketing and processing of agricultural products	127 787 764	104 074 745	81·4
83	Common measures in particular sectors	195 560 843	92 586 255	47·3
89	Special measures	25 334 948	5 109 216	20·1
	Total	533 144 785	279 269 850	52·4

3.7. These commitments are distributed amongst the Member States as follows:

Table 20. Commitment for the financial year 1978 by Member State

Member State	Individual projects, Regulation No 17/64/EEC	Common measures		Special measures	% of total commitments
		Individual projects, Regulations (EEC) No 355/77 and (EEC) No 1361/78	Other common measures		
Germany	1 035 325	16 822 386	69 109 685	28 087	31·1
Belgium	217 872	3 568 640	2 137 054	—	2·1
Denmark	—	3 855 011	8 598 466	96 028	4·5
France	1 733 731	22 981 571	30 427 431	104 504	19·8
Ireland	—	6 162 448	12 840 351	—	6·8
Italy	9 024 005	33 836 680	38 946	4 829 607	17·1
Luxembourg	—	202 488	306 648	—	0·2
Netherlands	—	4 698 165	7 875 761	—	4·5
United Kingdom	—	10 341 426	28 346 544	50 990	13·9
Total	12 010 933	102 468 815	159 680 886	5 109 216	100

3.8. 19 individual projects under Regulation No 17/64/EEC were financed wth the appropriations released by the partial or total cancelling of aid. On the other hand, since the transfer of 70 MEUA was not decided upon until December, it was impossible to enter into any commitment before the close of the financial year and the entire appropriation was carried forward to 1979.

3.9. Assistance from the Fund was granted to 349 individual projects planned for 1978 and falling within the scope of the common measure to improve the conditions under which agricultural products are processed and marketed (Regulation (EEC) No 355/77) (1). Regulation (EEC) No 1361/78 (2) amended the intervention procedures of the Fund under this measure so as to benefit certain Mediterranean regions by being more closely adapted to their particular situation. Aid totalling 19 544 670 EUA was allocated in 1978, in accordance with Regulation (EEC) No 1361/78, i.e. 6 312 011 EUA for France and 13 232 659 EUA for Italy.

3.10. Analysis of the various budgetary items reveals a very low utilization of commitment appropriations in 1978, i.e. an average of 52·4 % of the appropriations available for the whole of Title 8. The Commission has indicated some of the main causes of this situation:

— the change in the distribution of allocations. As from 1978 appropriations for the individual projects were limited: the unutilized balance of the appropriations from the other budgetary headings may not be used for projects,

— delays in the adoption of various Council Decisions, which resulted in a partial or even non-utilization of certain appropriations,

— delay by the Member States in initiating certain measures and in completing action already commenced,

— delays in the examination of the files by the EAGGF for administrative and procedural reasons. The Commission noted 41 requests for repayment still outstanding at 31 December 1978 and the total value of these unprocessed requests can be estimated as approximately equal to the commitments entered into the accounts in 1978 for the common measures and special measures.

(1) OJ No L 51, 23. 2. 1977, p. 1.
(2) OJ No L 166, 23. 6. 1978, p. 9.

Payment appropriations and 1978 payments

3.11. The total payment appropriations available for 1978 amounted to 1 245 704 269 EUA. The overall amount of payments was 323 604 294 EUA.

In all, only 26 % of the payment appropriations were used, but this percentage results from differing utilization rates in the sectors, as the table below illustrates:

(a) Utilization of appropriations carried over:

Table 21. Differentiated appropriations

(EUA)

Chapter	Appropriations carried over from 1977	Utilization in 1978	%
80	47 846 986	8 624 125	18
81	4 650 297	4 650 297	100
82	4 787 764	1 189 968	25
83	17 060 843	17 060 843	100
89	134 948	134 948	100
Total	74 480 838	31 660 181	42·5

Table 22. Non-differentiated appropriations

(EUA)

Chapter	Appropriations carried over	Utilization in 1978	%
80	723 416 493	148 463 871	20
83	3 306 938	1 720 169	52
Total	726 723 431	150 184 040	20·7

(b) Utilization of appropriations for the financial year (initial appropriations of 423·5 MEUA, increased by transfers of 21 MEUA):

Table 23

Chapter	Appropriations available (MEUA)	Payments made (EUA)	%
80	26	—	0
81	126	60 838 404	48·3
82	33	421 989	1·3
83	234·3	75 525 412	32·2
89	25·2	4 974 268	19·7
Total	444·5	141 760 073	31·9

3.12. The most significant under-utilization was of the appropriations for the financial year in respect of the individual projects under Chapters 80 and 82 (Regulations No 17/64/EEC and (EEC) No 355/77), where there are still very few payments in the same year as the decision to grant assistance.

For the common measures and special measures, the reasons for the low utilization of the 1978 appropriations were the same as those already mentioned with regard to commitments, since for this type of expenditure commitment and payment are in almost perfect alignment in the Commission's accounts.

With regard to the appropriations carried over, it should be noted that the allocations under Item 8200 (Producer groups and associations thereof in the field of marketing and processing of agricultural products) remained unutilized, since Council Regulation (EEC) No 1360/78 [1] which provided for the expenditure in question could not be applied before the close of the financial year.

PART TWO: OBSERVATIONS

Delays in implementation of individual projects

3.13. Management of the individual projects continues to be characterized by considerable delays in implementation, affecting a relatively high number of projects receiving aid from the Fund. This situation has existed for a number of years, but it must be stated that it is not improving.

3.14. The table on the next page gives details for each financial year from 1966 to 1977 and by Member State, of the total number of projects financed and the number of projects which had not been closed at the beginning of 1979.

Of all these projects, there remained outstanding at the beginning of 1979, seven under aid from the financial year 1966, seven from 1968, 28 from 1969, 66 from 1970, 160 from 1971, 124 from 1972 and 273 from 1973.

3.15. It is worthy of note that the table of estimates of payments published in the 1978 budget (OJ No L 36, 6. 2. 1978, p. 421) no longer contained estimates of payments for projects prior to 1969, which were thus all considered as being closed at the end of 1977.

3.16. The requests for financing submitted by applicants and the decisions to grant aid adopted by the Commission specify a set period for the implementation of the projects. Nevertheless, this period is of a purely indicative nature, as numerous circumstances can arise, not always attributable to the recipient of the aid, to prolong completion of the project.

The Court of Auditors inspected the files of 79 projects which had been completed during the financial years 1975 to 1978 and which were chosen as a representative sample. The inspection revealed that only 15 of these projects had been completed within the specified time limits. The other 64 projects were completed with varying delays, often double the period initially specified.

[1] OJ No L 166, 23. 6. 1978, p. 1.

Table 24. Distribution of projects granted from 1966 to 1977 and position of projects not closed at the beginning of 1979

Year	Germany		Belgium		Denmark		France		Ireland		Italy		Luxembourg		Netherlands		United Kingdom		Total	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
1966	59		20				33				119	7	3		20				254	7
1967	31		9				34				59		2		17				152	
1968	95		45				65	2			188	5	2		43				438	7
1969	152		69				132	3			249	25	3		58				663	28
1970	148	5	71	3			114	12			173	46	2		40				548	66
1971	161	10	96	3			143	34			282	113	7		34				723	160
1972	115	13	59	15			74	20			145	72	6		30	4			429	124
1973	112	42	92	30	10		70	33	25	6	224	116	2		34	13	68	33	637	273
1974	164	97	73	35	24	9	103	65	31	18	251	151	5		31	9	84	28	766	412
1975	171	115	62	37	21	6	63	52	37	18	155	129	1		56	31	126	49	692	437
1976	177	134	76	55	33	16	82	78	96	42	203	187	2	1	35	25	104	58	808	596
1977	159	142	78	74	42	23	79	77	101	27	198	197	1	1	49	44	95	89	802	674
Total (1)	1 544	558	750	252	130	54	992	376	290	111	2 246	1 048	36	2	447	126	477	257	6 912	2 784

(1) In 1978, 19 projects were financed (four for Germany, five for Belgium, two for France and eight for Italy) none of which had been closed at the beginning of 1979.
(a) Number of projects granted.
(b) Number of projects not closed.

3.17. An examination of the cases outstanding showed that Italian and French projects take the longest to complete. Of the seven 1966 projects referred to above which had not yet been closed at the beginning of 1979, six involved the same recipient — a public regional body in the south of Italy.

Sometimes even the commencement of the work is delayed owing to difficulties in financing or because it has not yet been possible to obtain the necessary aid. Changes in equipment, which are generally decided upon in the interests of technical or economic improvement, can also disrupt the programme and the timetable of a project. Finally, the prolixity of the administrative formalities has an adverse effect on the length of various procedures both before, during and after the work has been completed.

The implementation of the work is often affected by unforeseeable accidents or even *force majeure.*

The correspondence between the Commission and the Member States on the subject of delays is generally disappointing. Reminders are followed by standard replies or the indication of new time limits which, in their turn, are far exceeded.

3.18. It should not, however, be forgotten that the extension of time limits severely affects the efficiency and profitability of the projects.

The delays mean a prolonged immobilization of budgetary appropriations which could usefully be allocated to financing other activities.

It is therefore necessary to take action against the slow implementation of many of the projects. Measures to this effect have already been introduced by the provisions of Regulation (EEC) No 3171/75 of 3 December 1975. Under the terms of this Regulation, the Community subsidy for certain projects, which otherwise must not exceed 25 % of the total investment, may attain 45 %.

Furthermore, in the event of aid being cancelled or reduced, the corresponding appropriations may be used to finance other projects.

Prior to the introduction in 1976 of the system of differentiated commitment and payment appropriations, as it appears at present in the Financial Regulation of 21 December 1977, the projects which had been outstanding for more than five years were examined by the budgetary authority when approving the non-automatic carry-overs of appropriations. The new Regulation no longer requires this examination in respect of appropriations entered in the budgets of 1977 and subsequent financial years.

This situation is likely to favour the continuance of outstanding projects and the Court of Auditors can only recommend that projects behind schedule be examined at least once a year by the Commission. The current provisions governing the reduction or cancellation of aid could be supplemented by providing for decreasing amounts of aid in the event of persistent and unjustified delays.

Effect on the conditions of competition of aid granted to individual projects

3.19. In its previous Annual Report, the Court of Auditors commented on the granting of subsidies to firms who occupied a dominant position in their sector, particularly in the light of Article 17 (2) of Regulation No 17/64 EEC on the conditions for granting aid from the Guidance Section of the EAGGF, under whose terms the intervention of the Fund must not alter the conditions of competition to an extent which is incompatible with the principles of the Treaty.

3.20. Investigation of how the abovementioned provisions have been implemented revealed that, with regard to the position of undertakings in the market, the files kept by the Commission for granting and managing aid to the individual projects contain no more than a few items of information volunteered by the recipient in his request for aid, and this only sporadically.

3.21. The following information was taken from the files examined during the year.

(a) Projects DK 8/75 and DK 16/75 concern the building, extension and modernization of cheese factories or cheese-packaging plants in Denmark.

Of the two recipient firms, one belongs to the main Danish producer of margarine and the other stated that he held 25 % of the cheese trade in Denmark.

(b) Projects D 20/70 and N 46/70 also concern dairy products: in the first case, the extension of cheese-making premises and in the second, the installation of equipment to process albumin powder in the manufacture of products based on whey.

The beneficiary of the first project is the German subsidiary of a large American group; the second

project belongs to a cooperative which handles about 25 % of Dutch milk production.

(c) Projects B 28/74 and D 66/75 consist respectively in the building of a factory to process potatoes into crisps in Belgium and the extension and modernization of a vegetable canning factory in Bavaria.

The beneficiary of the first project is the subsidiary of a British firm which is itself part of a multinational group. The beneficiary of the second project stated that theirs was the principal undertaking in that sector in the south-east of Germany, and a large number of firms are linked by contract to this undertaking for the sale of their products.

(d) Projects UK 53/74 and F 14/77 are for the construction or extension and the modernization of pork-butcheries, canneries or pork treatment plants in Scotland and in the south Pyrenees.

The first project, which aims to increase the number of pigs slaughtered by 50 %, is in the hands of the Scottish branch of a multinational group which claims to be the biggest in Europe in the meat sector.

The beneficiary of the second project is the leading ham manufacturer in Bayonne, which purports to be the only truly industrial firm in the south-west of France for the products under consideration, as opposed to the other curing firms in the sector which are all small or medium-sized undertakings.

3.22. The cases described above are, however, indicative of the extent of the problems that need to be examined and of the investigations, at present still too brief, that they entail.

3.23. The Court of Auditors must stress that, in its opinion, there should be closer coordination at the Commission between the departments responsible for examining the requests for aid and those in charge of matters relating to competition.

This could take the form of communication of information to the department concerned, with a reasonably short time for reply, so as not to prolong the procedure for granting aid.

No such communications appear in any of the files consulted, whereas, in the opinion of the Court of Auditors, they should be systematic and supported by documentation. The granting of aid from the Fund could thus be accompanied by a more thorough examination of the market for the product under consideration, and an analysis of the effects of the project on the conditions of competition. The present situation bears the risk of the various Commission departments pursuing conflicting aims in this field.

Reply of the Commission to paragraphs 3.19 to 3.22

(a) As regards the effect on the aid granted to individual projects, Article 17(2) of Regulation No 17/64/EEC, like Article 18 of Regulation (EEC) No 355/77, states that 'the granting of aid must not affect the conditions of competition in such a way as to be incompatible with the principles contained in the Treaty'. The Commission already had the opportunity — in connection with the Court of Auditors' report on the financial year 1977 — to stress that it attaches particular importance to this problem and that various departments of the Directorate-General for Agriculture have been made responsible for monitoring market trends and giving opinions when the applications for aid are examined.

(b) The departments involved therefore possess the expertise enabling them to assess the position of an applicant on the market in question even if the application for aid does not contain precise information on the subject. It should also be pointed out that under Regulation (EEC) No 355/77 — which replaced Regulation No 17/64/EEC from 1 January 1978 as regards the processing and marketing of agricultural products — finance will be limited after a transitional period to projects forming part of sectoral programmes approved by the Commission. The content of these programmes and the examination procedure will therefore make it even easier to possess all the factors necessary to ensure compliance with Article 18 of this Regulation.

(c) There exists within the Directorate-General for Agriculture one department which deals with conditions of competition. If problems arise in this connection, collaboration with this department ensures that these aspects are given due weight.

None of the cases mentioned by the Court of Auditors involved the risk of a distortion of the conditions of competition incompatible with the principles of the Treaty.

To assess the effects of aid, the situation on the market in question must be considered. The mere fact that the potential beneficiary is the subsidiary of a multinational company or the most important undertaking in a certain sector does not suffice for an assessment of this type.

Remarks of the Court on the Reply of the Commission to paragraphs 3.19 to 3.22

The Court is aware that, for cases which pose problems of this nature, there is collaboration within the Directorate-General with the department which deals particularly with competition.

In the opinion of the Court of Auditors, such a liaison, which is still too sporadic, should not preclude the intervention of the Directorate-General more especially responsible for matters relating to competition within the Commission departments.

CHAPTER 4 — FINANCIAL ACTIVITY OF THE COMMUNITY IN THE SOCIAL SECTOR

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GENERAL REVIEW

4.1. The various activities of the Community in the social sector are listed under several chapters of the budget, notably Chapters 30 (Miscellaneous expenditure in the social sector), 35 (Protection of Man and his environment), 50, 51, 52 (European Social Fund) and 59 (Aid to disaster victims in the Community).

The budgetary technique varies, however, being by way of differentiated appropriations in some chapters, and by non-differentiated appropriations in others.

The non-differentiated appropriations are to be found under the majority of items of Chapter 30 (except for Articles 303 and 306), and the whole of Chapter 35 and Chapter 59.

The differentiated appropriations are to be found under Articles 305 and 306 (part of Chapter 30) and the three Chapters 50, 51 and 52 which together incorporate the expenditure of the European Social Fund.

Table 25 records by chapter the financial management data for the year.

Tables 26 and 27 show the details, with the headings, of the various articles which form the chapters.

Table 25. Non-differentiated appropriations

(EUA)

	Final appropriations for the financial year	Commitments entered into charged to the financial year	Payments made charged to the financial year	Amounts outstanding at the close of the financial year	Appropriations automatically carried over (Articles 6 (1) (c) and 108 (3) (a) of the Financial Regulation)	Payments made charged to the appropriations carried over
Chapter 30	5 645 000·00	4 755 921·11	3 804 256·02	951 665·09	1 461 860·43	1 271 101·65
Chapter 35	6 968 000·00	5 951 925·32	2 964 813·65	2 987 111·67	2 224 918·79	2 160 818·64
Chapter 59	5 000 000·00	3 739 028·24	3 739 028·24			

Differentiated appropriations

(EUA)

	Commitments		Payments				
	Total commitment appropriations	Commitments entered into for the financial year	Appropriations carried over for the financial year 1977 (Articles 6 (2) (b) and 88 (4) of the Financial Regulation)	Payments made from the appropriations automatically carried over (Articles 6 (2) (b) and 88 (4) of the Financial Regulation)	Financial appropriations for the financial year	Total payments from the appropriations for the financial year	Appropriations automatically carried over (Articles 6 (2) (b) and 88 (4) of the Financial Regulation)
Chapter 30	6 660 666·66	1 789 946·73	933 344·26	933 344·26	3 274 000·00	1 893 424·67	1 380 575·33
Chapter 50	238 473 335·74	237 459 551·83	10 210 915·47	10 210 915·47	225 500 000·00	118 186 014·61	107 313 985·39
Chapter 51	331 130 116·55	330 629 319·97	35 184 505·23	35 184 505·23	312 000 000·00	120 715 602·76	191 284 397·24
Chapter 52	1 555 370·86	921 077·49	106 418·39	106 418·39	1 300 000·00	370 539·65	929 460·35

SOCIAL FUND

The revenue and expenditure account

4.2. In its 1977 Report (4.9) the Court of Auditors drew attention to the lack of clarity of the revenue and expenditure account and the errors which it contained.

Although the Commission has endeavoured to make certain corrections it has not been possible to establish a full and accurate picture, in particular of the sums outstanding, which would have provided a stable and definitive basis from which to work on 1 January 1978.

The Commission thus chose to recreate this starting point by compiling from the file a list of amounts outstanding on this date which it then re-entered in the accounts during the year. The distribution by financial year of this new basis is to be found in a new Annex to the revenue and expenditure account entitled 'Breakdown by year of commitment of the amounts outstanding'.

While satisfaction can be expressed at the fundamental reform of the accounting management of the Social Fund, it is impossible to make a comparison of the commitments still to be settled at 31 December 1977 as they appear in the 1977 revenue and expenditure account with the new sums re-entered in the accounts at 1 January 1978. This problem was examined by the Commission, having been also discussed beforehand in several working meetings, but has not been solved. It formed the subject of the following note from the Commission:

'Although it is possible in theory to carry out this work, this is unfortunately not the case in practice. The payments made against the commitments of the Funds are shown in the files and they make it possible to calculate the sums outstanding case by case; this settlement, however, was only partially followed in the accounts because under the former scheme of non-differentiated appropriations and of the Financial Regulation of 25 April 1973, the payments carried over to the next financial year could only be entered in relation to the appropriations carried over. In order to compare the sums at 31 December 1977 with those of 1 January 1978, we thus had to enter these payments in the accounts likewise in relation to the commitments and then to compile the list of cancelled commitments.

Unfortunately we are lacking the staff to carry out this work within a reasonable time, both at the Directorate-General for Employment and Social Affairs and at the Directorate-General for Budgets.

Although this reply shows that the earlier comments of the Court were pertinent, it recognizes that it is in practice impossible for the Commission to provide a satisfactory solution to the situation. In these circumstances the only thing to do is to start again from the new bases.

The adjustment of the accounting system to the requirements of clarity and accuracy during the financial year 1978 is satisfactory and the former situation should not recur. Henceforth, it is possible to follow the commitments — which may later be cancelled — the payments and the actual amounts outstanding.

The examination of the final accounts made possible a comparison with the data of the revenue and expenditure account and did not raise any particular problems.

In the presentation of this account, it is interesting to note that the Annexes contain the 'Breakdown by year of commitment of the sums outstanding at 31 December 1978' which shows, by financial year, details of the movements in the year which affect the amounts outstanding.

Reply of the Commission to paragraph 4.2

The Commission is satisfied that a system of presentation has been agreed with the Court which improves the clarity of the revenue and expenditure account.

Financial management

The commitments

4.3. For the financial year 1978, almost all of the commitment appropriations were committed for Chapters 50 and 51.

The 1978 decisions were taken in two stages, the first series on 28 July 1978 (173·018 MEUA) and the second on 20 December 1978 (393·087 MEUA).

The late date of this latter series of decisions involved — as was formerly the case — a double delay:

(a) in the closing of the accounts for the financial year 1978, since it was not possible to enter these commitments in the accounts until the first months of 1979; and

(b) in the corresponding payments, which will be discussed below.

With regard to the actual measures decided upon, it is noted that the pattern of distribution of funds proposed in the budget was followed to the full; the major part of the appropriations were thus assigned to measures for young people and to measures to improve the employment situation in less-favoured regions (details in Table 26).

The payments

4.4. During the financial year 1978, the Commission paid a total of 284·8 MEUA, i.e. 45·5 MEUA out of appropriations carried over and 239·3 MEUA out of the final appropriations for the financial year.

These payments represent respectively a total utilization of the appropriations carried over but, on the other hand, only 44·4 % of the appropriations for the financial year (52·4 % for Chapter 50, 38·7 % for Chapter 51 and 28·5 % only for Chapter 52).

4.5. Table 28 shows the payments from commitments for the financial year. As pointed out above, the late communication of the decisions for the second series of commitments for the financial year 1978 has made any payment in respect of this series impossible.

With regard to the first series, payments made as advances (at least 30 % of the annual instalment of authorized funds) in respect of commitments for the financial year 1978 are shown in Table 28.

4.6. With regard to the financial years prior to 1978, 256·5 MEUA were paid, over half of which was for 1977. This is explained for the most part by a similar delay in 1977 in taking commitment decisions and communicating them.

4.7. Table 29 gives the breakdown of payments by month. The payments are shown to be concentrated

towards the end of the year, over a quarter being paid in December and over a half in the last quarter.

Reply of the Commission to paragraphs 4.3 to 4.7

The report points out that the late communication to the Member States of the decisions for the second series delayed not only the finalization of the accounts for 1978 but also has not allowed for applications for advance payments to be made within the financial year. In the past, it has been the system to consider the second series of applications as late as possible in the year to allow time for the submission of as many applications as late as possible in the year and thus the reduction procedure could be applied, when applications had been received. With the review of the rules of the Fund, provision was made, from 1980 onwards, to introduce a system as follows.

The Member States shall submit their applications grouped together by fields of intervention:

— *before 21 October each year in the case of operations due to begin in the first half of the succeeding year,*

— *before 1 April each year in the case of operations due to begin in the second half of the same year, provided that the nature and size of the operations planned are announced before 21 October of the preceding year.*

This would allow consideration of applications earlier in the year (1). *To prepare for the introduction of this new system, the consideration of the second series of applications for 1979 was brought forward to the middle of the year, which should allow for notification of the decisions to Member States and claims for advances to be made within the same financial year.*

The new facilities for advance payments, as well as the special facility of accelerated payments on account, for operations carried out prior to 1978, was not used as had been hoped, especially by the Member States for whose benefit it had primarily been introduced. The Commission was disappointed by the response of the Member States but the facility of advance payments is being used in 1979 to a much greater extent.

Table 28 shows that, in respect of commitments made in 1978 for operations to be carried out in 1978, five countries received no payments.

Three of these countries had made claims for payment in respect of these commitments but the claims were received too late to be paid before the end of the year. (Indeed it should be added that virtually all duly completed claims received up to mid-December 1978 had been paid by the end of the year.)

In one other country, a payment of an advance was made in respect of 1978 operations arising from commitments made prior to 1978.

As far as the years prior to 1978 are concerned, there was no provision for the payment of advances but even the transitional system of accelerated payments on account and the old system of payment on account was not widely used. In fact, most Member States did not submit their applications with full and final financial records for one financial year until the second half of the following year. This explains to a large extent, the rhythm of payments through the year which is commented upon by the Court in paragraph 4.7.

Comments

4.8. Contradictions that came to light in the handling of several different dossiers relating to a single organization, which represented itself alternately as private and public, led the Court of Auditors to undertake, with the services responsible, a systematic examination of the prevailing rules of practice. It was at this juncture that the necessity was recognized of reviewing all of the measures applied by the Commission and in particular those arising from the double reform undertaken by the latter before preparing an audit programme.

For this purpose a study was made of the provisions for the implementation of the new regulations governing the Fund and also of the thorough internal reform — both administrative and procedural — of the management of the Fund. The external audit should carry out yet more frequent inquiries on the premises of the beneficiaries who hold supporting documents relating to the measures.

Reply of the Commission to paragraph 4.8

The case referred to in the Report did draw attention to the need for a clear definition of the legal term 'public authority'. The case in point referred to commitments made for operations in 1973 and 1974 when the applicant was treated differently in each year under Article 8 of the basic decision. There was also

(1) *Article 5 of Council Regulation (EEC) No 2396/71 of 8 November 1971, amended by Regulation (EEC) No 2893/77 of 20 December 1977.*

apparently confusion on the part of the Member State concerned on this point. The consequence of the investigation carried out by the Commission was that the applicant was treated as a private body and that an amount considered to have been overpaid was reimbursed to the Commission.

The Commission agrees with the Report that 1978 was a transitional year. Every effort was made to explain to the Member States the new provisions for payment and to encourage the use of the new procedures. It is clear, however, that to change the system as was done in 1978, takes much longer than was anticipated and in fact it may take up to 1980 until the system is fully working.

4.9. 1978 may thus be regarded as a year of transition:

— in the internal administration, the tasks of preparing the commitment decisions and of clearing payments were made a single area of responsibility,

— with regard to legislation, the new system of payment entered into force on 1 January; it provided as a transitional measure for the possibility of request for accelerated interim payment, provided that the request was submitted before 1 July 1978 for operations carried out before 1 January 1977, and before 1 January 1979 for operations carried out during 1977 (1).

The Commission recorded a relatively low number of requests for payment under this simplified procedure, which suggests a certain delay in performance by the national administrations or beneficiaries. This new facility did not contribute to a speeding-up as would have been expected.

4.10. The new scheme gives the Member State greater responsibility. Upon any request for payment, it certifies the factual and accounting accuracy of the information given and thus incurs a secondary responsibility in respect of any amounts to be repaid.

4.11. Until now the reports of audits conducted on the premises of the undertakings by the competent organs have not been systematically forwarded to the Court of Auditors. Agreement has been reached with the Commission whereby transmission shall henceforth be automatic and immediate. For this year therefore there has still been delay, and the few isolated reports that have reached the Court appear to be purely factual in content and to raise no questions of principle.

(1) The former system provided for interim and final payments upon presentation of supporting documents:
— the new system provides for payment of two advances of 30 % on the annual instalment (at the beginning and at the half-way stage of operations) and of the final sum, at each stage, upon certification by the Member State,
— for a transitional period, in order to clear the old accounts, payment by instalments upon certification of the Member State, called accelerated interim payments.

Table 26. Differentiated appropriations

Art.	Heading	COMMITMENTS		PAYMENTS				
		Total commitment appropriations	Commitments entered into for the financial year	Appropriations carried over from the financial year 1977 (Articles 6 (2) (b) and 88 (4) of the Financial Regulation)	Payments made from appropriations automatically carried over (Articles 6 (2) (b) and 88 (4) of the Financial Regulation)	Final appropriations for the financial year	Total payments from appropriations for the financial year	Appropriations automatically carried over (Articles 6 (2) (b) and 88 (4) of the Financial Regulation)
	EXPENDITURE IN THE SOCIAL SECTOR							
303	Community measures to improve worker's living conditions	1 120 000·00	1 112 729·92	—	—	370 000·00	9 142·47	360 857·53
306	Pilot research projects on action to combat poverty	5 540 666·66	677 216·81	933 344·26	933 344·26	2 904 000·00	1 884 282·20	1 019 717·80
	Chapter 30 — Total	6 660 666·66	1 789 946·73	933 344·26	933 344·26	3 274 000·00	1 893 424·67	1 380 575·33
	NEW SOCIAL FUND — EXPENDITURE PROVIDED FOR UNDER ARTICLE 4 OF THE COUNCIL DECISION OF 1 FEBRUARY 1971							
500	Aid to the agricultural and textile sectors	32 541 925·93	31 972 883·91	1 232 949·61	1 232 949·61	61 000 000·00	20 740 289·57	40 259 710·43
501	Measures for young people	179 429 107·48	179 299 065·64	5 976 344·80	5 976 344·80	118 000 000·00	68 895 888·42	49 104 111·58
502	Measures for handicapped persons	—	—	2 466 173·11	2 466 173·11	19 000 000·00	17 891 138·09	1 108 861·91
503	Measures for migrant workers	18 500 000·00	18 496 734·72	535 447·95	535 447·95	25 000 000·00	10 658 698·53	14 341 301·47
505	Measures to help women	8 002 302·33	7 690 867·56	—	—	2 500 000·00	—	2 500 000·00
	Chapter 50 — Total	238 473 335·74	237 459 551·83	10 210 915·47	10 210 915·47	225 500 000·00	118 186 014·61	107 313 985·39
	NEW SOCIAL FUND — EXPENDITURE PROVIDED FOR UNDER ARTICLE 5 OF THE COUNCIL DECISION OF 1 FEBRUARY 1971							
510	Measures to improve the employment situation in certain regions, economic sectors or groups of companies	282 530 116·55	282 491 728·46	31 409 692·74	31 409 692·74	275 000 000·00	99 366 068·65	175 633 931·35
511	Measures for handicapped persons	48 600 000·00	48 137 591·51	3 774 812·49	3 774 812·49	37 000 000·00	21 349 534·11	15 650 465·89
	Chapter 51 — Total	331 130 116·55	330 629 319·97	35 184 505·23	35 184 505·23	312 000 000·00	120 715 602·76	191 284 397·24
	SOCIAL FUND — PILOT SCHEMES AND PREPARATORY STUDIES							
520	Social Fund — pilot schemes and preparatory studies	1 555 370·86	921 077·49	106 418·39	106 418·39	1 300 000·00	370 539·65	929 460·35

Table 27. Non-differentiated appropriations

(EUA)

Art.	Heading	Final appropriations for the financial year	Commitments entered into charged to the financial year	Payments made charged to the financial year	Amounts still to be paid at the close of the financial year	Appropriations automatically carried over (Article 6 (1) (c) and 108 (3) (a) of the Financial Regulation)	Payments made charged to the appropriations carried over
	EXPENDITURE IN THE SOCIAL SECTOR						
300	Administrative Commission on Social Security for Migrant Workers	565 000·00	525.763·64	241 056·50	284 707·14	155 368·14	135 434·67
301	Tasks entrusted to the Commission in the field of vocational training	2 950 000·00	2 384 536·68	2 246 075·54	138 461·14	62 178·07	62 386·88
302	Tasks entrusted to the institution to promote exchanges of young workers	150 000·00	141 160·29	96 012·99	45 147·30	22 381·69	20 931·99
303	Community measures to improve workers' living conditions	—	—	—	—	787 593·85	664 555·66
304	Measures in support of, and with the participation of, movements which could increase the effectiveness of the social policy of the Community	260 000·00	239 931·51	156 957·85	82 973·66	71 165·81	72 331·24
305	Community measures under the employment policy	870 000·00	814 528·99	514 153·14	300 375·85	363 172·87	315 461·21
307	European Trade Union Institute	500 000·00	350 000·00	250 000·00	100 000·00	—	—
308	Assistance to victims of accidents in the coal and steel industries and aid to orphans	300 000·00	300 000·00	300 000·00	—	—	—
309	Community aid to workers made redundant in the Italian sulphur mines	50 000·00	—	—	—	—	—
	Chapter 30 — Total	5 645 000·00	4 755 921·11	3 804 256·02	951 665·09	1 461 860·43	1 271 101·65
	PROTECTION OF MAN AND HIS ENVIRONMENT						
350	Radiation protection	400 000·00	337 232·05	178 037·21	159 194·84	119 126·07	107 437·68
351	Ecotoxicity pollution measurement and monitoring networks	268 000·00	267 789·25	100 409·07	167 380·18	256 802·51	232 520·64
352	Health protection, hygiene and safety at the place of work	795 000·00	699 311·96	359 859·12	339 452·84	248 449·33	226 220·50
353	Public health studies and measures	180 000·00	153 647·98	66 151·80	87 496·18	20 012·79	10 382·65
354	Community environmental protection measures	2 280 000·00	2 182 403·68	700 611·11	1 481 792·57	1 125 131·23	1 127 587·37
355	Consumer protection and information	670 000·00	666 836·05	275 999·97	390 836·03	426 505·82	427 969·89
356	Organization and 'humanizing' of work	75 000·00	73 458·88	10 370·66	63 088·22	28 891·04	28 699·91
359	Grant towards the operation of the European Foundation for the Improvement of Living and Working Conditions	2 300 000·00	1 571 245·47	1 273 374·71	297 870·76	—	—
	Chapter 35 — Total	6 968 000·00	5 951 925·32	2 964 813·65	2 987 111·67	2 224 918·79	2 160 818·64
	AID TO DISASTER VICTIMS IN THE COMMUNITY						
590	Aid to disaster victims in the Community	5 000 000·00	3 739 028·24	3 739 028·24	—	—	—

Table 28. Payments from commitments for the financial year by item and country (1)

(MEUA)

	France	Belgium	Nether-lands	Germany	Italy	United Kingdom	Ireland	Denmark	Luxembourg	Total
Commitments for the financial year by country	86·193	11·084	9·810	57·262	233·010	111·837	44·412	14·248	0·233	568·089
Amounts thereof following the first series of approvals	20·122	2·875	1·282	28·672	51·592	24·046	37·034	7·221	0·174	173·018
Payments for the financial year										
5000	—	—	—	1·855	—	—	—	—	—	1·855
5001	—	—	—	1·528	—	0·015	—	—	—	1·543
5010	—	—	—	4·652	—	2·525	4·170	1·685	—	13·032
5030	—	—	—	1·288	—	0·236	0·015	—	—	1·539
Chapter 50 — Total	—	—	—	9·323	—	2·776	4·185	1·685	—	17·969
5100	—	—	—	1·008	—	—	4·150	0·333	—	5·491
5101	—	—	—	—	—	—	—	0·321	—	0·321
5110	—	—	—	—	—	0·257	3·912	—	—	4·169
Chapter 51 — Total	—	—	—	1·008	—	0·257	8·062	0·654	—	9·981
Chapters 50 + 51 — Total	—	—	—	10·331	—	3·033	12·247	2·339	—	27·950
Percentage of payments from the commitments following the first series of approvals	0 %	0 %	0 %	36·03 %	0 %	12·61 %	33·07 %	32·39 %	0 %	16·15 %
Chapter 52	0·025	0·079	—	0·087	0·002	0·07	0·014	—	—	0·277
Chapters 50 + 51 + 52 — Total	0·025	0·079	—	10·418	0·002	3·103	12·261	2·339	—	28·227

(1) These are advance payments.

Table 29. Distribution of payments over the financial year

(EUA)

Month	Amount	Percentage per month	Percentage per three months
January/February	19 097 763·36	6·71	
March	6 445 345·90	2·26	8·97
April	10 220 696·22	3·59	
May	11 841 065·59	4·16	
June	4 094 217·25	1·43	9·18
July	44 620 596·01	15·67	
August	14 396 628·72	5·06	
September	12 251 739·98	4·30	25·03
October	36 642 472·15	12·87	
November	45 682 846·05	16·03	
December	79 480 624·88	27·92	56·82
Total	284 773 996·11	100	100

Table 30. Payments from amounts outstanding by country and by year

EUA)

	France	Belgium	Nether-lands	Germany	Italy	United Kingdom	Ireland	Denmark	Luxembourg	Total
Payments from amounts outstanding, financial year:										
1973	—	149 194·81	—	—	—	—	—	—	—	149 194·81
1974	3 146 660·67	—	267 456·21	—	178 403·46	—	—	—	—	3 592 520·34
1975	19 023 607·48	195 623·06	37 402·60	202 954·42	613 542·83	2 643 550·29	167 884·60	—	—	22 884 565·28
1976	14 333 948·97	418 980·59	2 009 032·18	3 398 502·76	12 535 199·85	20 463 938·86	5 582 967·72	362 575·29	49 839·29	59 154 985·51
1977 commitment authorizations	334 890·80	1 144 536·55	—	5 797 410·13	6 002 489·62	4 261 804·52	3 382 348·96	52 096·02	—	20 975 576·60
Payments from amounts outstanding, financial year 1977	15 373 317·20	9 804 449·76	12 329 130·78	32 844 168·68	9 713 340·88	58 624 352·05	8 985 706·13	956 228·83	—	148 630 694·31
1978 commitment authorizations	—	204 711·85	—	34 765·76	—	390 353·76	529 194·20	—	—	1 159 025·57
Total	52 212 425·12	11 917 496·62	14 643 021·77	42 277 801·75	29 042 976·64	86 383 999·48	18 648 101·61	1 370 900·14	49 839·29	256 546 562·42
Percentage	20·353	4·645	5·709	16·479	11·320	33·673	7·268	0·534	0·019	100

Table 31. Financial year 1978: calculation of amounts outstanding

Financial year of the commitment	Amounts outstanding at 1 January 1978 (%)	Payments (%)	Adjustments of the balances outstanding to the variation of the rate of the EUA (%)	Cancellation of commitments making appropriations available (%)	Amounts outstanding at 31 December 1978 (%)
1973	100	100	—	—	—
1974	100	37·57	1·48	—	60·95
1975	100	35·63	1·66	—	62·71
1976	100	32·38	0·99	—	66·63
Authorizations for 1977	100	14·56	1·88	—	83·56
Financial year 1977	100	30·04	1·71	0·32	67·93
Authorizations for 1978	100	1·99	1·38	—	96·63
Total of previous financial years	100	26·90	1·58	0·16	71·36
Financial year 1978	100	4·96	—	—	95·04
Grand total	100	18·70	0·99	0·10	80·21

AID TO DISASTER VICTIMS IN THE COMMUNITY

General

4.12. Since the financial year 1977 the budget has contained, in Chapter 59, allocations which allow the Commission to take urgent decisions to grant aid to disaster victims. The table below gives details of its nine decisions to grant aid, which amount to a current total of 7·7 MEUA.

Table 32. Aid for disasters

Country	1977		1978		Total	
	Number	MEUA	Number	MEUA	Number	MEUA
Italy	2	2·2	1	0·7	3	2·9
France	1	1·8	2	0·9	3	2·7
Germany	—	—	2	0·7	2	0·7
United Kingdom	—	—	1	1·4	1	1·4
Total	3	4·0	6	3·7	9	7·7

4.13. This is a purely humanitarian type of aid to which the budgetary authorities did not wish to attach specific rules. When notifying recipients of its decisions to grant aid, the Commission expresses the wish that the financing allocated be used quickly by the competent authorities, in the first instance, for the most direct aid possible to the disaster victims and for actions to protect human life.

In addition, the Commission stipulates that, on accepting the aid, the recipient undertake to be subject

to the audit of the Commission and that of the Court of Auditors. The recipient is also to send the Commission a report on how the aid has been applied.

Comments

4.14. The Court of Auditors firstly consulted the files at the Commission departments. The consistency of these files varies considerably from one case to another. This problem can be explained by:

— the decision-making procedure followed at the beginning of this process by the Commission, which has only been improved recently by the creation of an interdepartmental working party with the aim of achieving greater concentration of the administrative responsibilities of this sector.

  Nevertheless, where activities that enable the Commission to follow the allocation and use of the funds are involved, this unit is no longer in evidence,

— the absence of any adequate definition of procedure, which leaves to the recipient alone the decision when to forward the information which he is called upon to provide and what it is to contain.

4.15. As it was not possible to apprise itself adequately of the financial operations by means of the documentation held by the Commission, the Court of Auditors designed an audit programme to be carried out entirely on the spot which would gather enough information to obtain a general picture of the procedures, allocations and payments of Community aid.

This programme was carried out in full, except in respect of France, where the requests as to the whereabouts of financial operations and the possibility of access to the documents have remained unanswered to date.

4.16. As to the allocation of the aids, the Court found that, in general, — in all the countries — they had been assigned to operations which fell within the priorities defined by the Commission. Research into how far these recommendations are applied is only possible if a breakdown of the allocation of Community aid is made available. Whether the allocations were specific or supplementary to the national aid programmes, they were in fact distributed via the same channels as were used to distribute national aid; the tables drawn up by country give details of these channels.

In two cases, however, (4.25 (iv)) the government concerned confined itself to including the funds received from the Community among its budgetary revenue.

The region which received the largest allocation made a general decision to do no more than extend the conditions of eligibility for national aid. There was no way of detecting the extent to which supplementary aid had been granted as a result. Moreover, the same financial resources intended for the compensation of the victims of the first disaster were used to similar ends for a second disaster. Thus, in the absence of a fresh financial effort, it was only possible to spend just over half of the initial national allocation at the close of 1978.

4.17. In general, the recipients were aware that the aid came from the Community — whether it was purely specific (4.25 (i)) or was added to national aid (4.25 (i) to (v)) or was assigned to a public project designed to guard against the same catastrophe recurring (see in particular the details in Table 34 of the communities protected by these projects). In the two cases referred to above where Community aid was only shown in the 'receipts' side of the national budget, the recipients could not be aware of the importance of the Community aid.

4.18. The concept of emergency relief adopted by the Commission must be judged differently according to the destination of the aid.

— A rapid and easy means of aid consisted in only requiring of the injured party evidence of the loss of his animals (e.g. veterinary certificate) (4.25 (iii)).

— A rapid method consisted in allocating the aid in the form of an advance to be justified later by the submission of documents giving evidence of the repair of the owner's damaged property (4.25 (iv)).

— In the case of other similar allocations the authorities demanded the prior submission of invoices to establish that the work had really been performed on the damaged property.

— The project of reafforestation of private property was only subsidized after checking the extent of successful replanting.

  Moreover, these requirements prevented application of the reserve of aid intended for this project: almost half of the appropriations still remain unused because some of the landowners affected by the disaster have not undertaken replanting. Apart from the financial blockage, lack of action in this case robbed the project of its economic significance as the protective curtain for agriculture within the area has not, in the event, been fully re-established.

— The new investments are themselves submitted to the usual rules, governing subsidization (payment by instalment, in accordance with the progress of the work after the technical control of the information provided).

With regard to the actions intended to prevent recurrence of disasters and to protect communities, it was observed that efforts were generally made to complete the work before the critical period.

With regard to the repair of certain parts of the infrastructure, especially buildings and roads, it is difficult to appreciate the desire for urgency since this type of aid only relieves the disaster-stricken communities very indirectly.

4.19. To carry out its audit duties, the Court of Auditors sought criteria which could be applied to operations financed by the Community but whose choice and implementation was left to the discretion of the countries concerned.

In spite of this discretionary aspect, in the absence of any directive of general application, one may wonder whether the Community ought not to make efforts to define, in the form of more specific recommendations:

— the extent to which the funds benefit the victims,

— the benefit in humanitarian terms sought after by the various types of aid, since it was for this purpose that the necessary appropriations were entered under Title V of the Community budget,

— the measures to be taken in order to ensure the rapid channelling of Community funds to their actual destination.

4.20. The application of these criteria does not require numerous or in-depth controls. The latter can, moreover, be facilitated at the management stage by periodically forwarding information in a predetermined simple and schematic format. The experience of the Court in all the countries visited shows that a procedure is possible similar to that which the Court's departments followed and which did not give rise to any difficulty or overload of work for the national departments concerned. The intervals at which such information is to be forwarded should be fixed according to the nature of the operations planned at the time when the decisions are known. Such systematic exchanges would encourage the national authorities responsible to forward information both to the Court and to the Commission on a regular basis, which would simplify the audit of the rapid and judicious use of the funds.

4.21. In the absence of an adequate definition of the purpose of the aid, a certain amount of confusion was discerned in the national administrations in taking simple management measures or even making necessary adjustments to the programmes previously drawn up and communicated to the Commission.

It should certainly not be the absence of strict rules or the normal requirement of a double audit (Commission and Court) that thwart a distribution of funds whose aim is to express by its rapidity the fellowship of the Community with the disaster-stricken communities.

4.22. In order to be distributed, the aids were integrated into the official financial channels — in most cases, the national budget. Accordingly, their availability was made subject to national legislation. In certain cases (Table 34) it was even necessary to await the finalization of specific legislative activities. Except in one case, where the aid was unconditional, the victims were only assisted where they could establish that the repairs to their goods had been undertaken or even completed: this requirement withheld the benefit of Community aid from the most deprived victims.

The attached tables show that from the time the aid is paid by the Commission it takes all the longer to arrive at its destination where its internal transit calls for decisions and transfers of funds at different levels.

With regard to procedure, a simple audit requires only the itemization of Community funds, if possible in a separate account.

4.23. With regard to the activity of the Commission, it would be desirable for all the documentation to be centralized and improved under the authority of one person. It should also follow, on a regular basis, the rate at which the appropriations are made available.

By so doing, it could, by means of the appropriate contacts with the local authorities, take all possible measures to prevent all or part of the Community aid from being frozen.

Lastly, it should examine any change put forward or decided upon by the country responsible for its implementation: thus, in one country, a part of the aid intended for one disaster was allocated to other regions

which had themselves been struck by other natural disasters.

4.24. Having regard to the preceding observations, the Court offers the following comments by way of conclusion.

— The Community aid should not constitute simply another source of funds for the national or regional budget; the bare entry of the funds received as receipts, without a corresponding itemized allocation, is meaningless.

— The social objectives to be attained should be better specified; is it in fact a case of compensation or, on the other hand, aid for reconstruction or repair work.

— With regard to the public investments, it is also noted that certain infrastructures such as roads and public buildings benefit the countries or regions more directly than the deprived victims. The latter are, in this respect, more directly interested in protective works to prevent the recurrence of the disaster.

— Every step should be taken to ensure that the countries have the structures which permit, while respecting their national legislation, rapid channelling of the aids to the persons for whom they are intended.

— The recipients of the aid should be able to appreciate the effort made on their behalf by the Community; this can only be achieved if the aid has been adequately itemized.

Reply of the Commission to paragraphs 4.12 to 4.24

The detailed examination by the Court of Auditors of the implementation of Chapter 59 covers the start-up phase of the system of granting aid to disaster victims — a system whose main features should be a clear definition of the aims coupled with flexibility as to the methods used.

On 15 February 1978, therefore, the Commission asked the special interdepartmental working party responsible for devising — on the basis of experience — the requisite management procedures to prepare the decision in question on granting aid. By taking this step, the Commission formalized the consultation procedure already existing in relation to the files concerned.

The procedure is that, at the time of confirming to the public authorities concerned its decision to grant aid, the Commission indicates not only its preferences as to the allocation of the funds, but also stipulates that reports be submitted on the uses to which the Community aid has been put. The Commission fully shares the Court of Auditors' view that the national authorities be required to send in regular reports on the use of the aid. The Commission has made its requirements in this respect more stringent.

As concerns the criteria for granting aid, the Commission considers that what is important is to help the people affected as directly as possible. However, the type of aid it is possible or desirable to give varies from case to case and it is not impossible that occasionally aid to repair infrastructures (roads, river-banks) is the best possible choice in the circumstances. Flexibility in allocating aid must be maintained to ensure that the relatively modest aid in the Community's gift is used to the best effect.

This means that the kind of 'Community policy' with strict criteria and specific social aims encountered in the regulations governing other fields of activity, permitting systematic controls to ensure observance of the rules, would hardly be appropriate. The aid in question is in the first instance a token of the Commission's concern and of Community solidarity. In this connection the Commission considers with the Court of Auditors that it is essential that 'the recipients ... should be able to appreciate the effort made'. This would be ensured even where it was decided to give aid for infrastructures.

Concerning the rapid transfer of funds and the budgetary treatment, accounting for and payment of aids, it is obvious that the methods of local authorities will vary with the structures of each Member State.

This being said, the Commission considers that to ensure transparency as regards the use of Community contributions to help the people affected, the best approach would be to make it clear in good time that a report on the use of the funds must be submitted. At all events the Commission stresses the great importance it attaches to the aid reaching the recipients with the shortest possible delay.

Summary of aid allocated and general information concerning France — extracts from files

4.25.

(i) Floods during August 1977 in Italy (Decision of 29 September 1977).

Tuscany:

— specific aid to 205 owners of forest-land on the basis of proof submitted in advance,

— supplementary aid to 13 public projects organized by local authorities on the basis of advance proof of repair work to roads, banks of mountain streams and canals.

(ii) Floods during October 1977 in Italy (Decision of 19 October 1977).

Val d'Aosta:

— supplementary and specific aid to a project set up by a consortium of about 500 landowners for the reconstruction of water intakes linked to the project to reconstruct the protective dam on the mountain stream.

Piedmont:

— supplementary and specific aid to a project to reinforce the bed and bank of the Stura, thus protecting the disaster-struck village of Ovada (700 dwellings damaged).

Liguria:

— supplementary and specific aid to two dam projects on the Angassino, thus protecting Campo Ligure (5 000 inhabitants — the central area is threatened by the mountain stream).

Lombardy:

— supplementary and specific aid for a project to reinforce the bed and banks of the Curone thus protecting the village of Casei Gerola (5 000 to 6 000 inhabitants affected by periodic floods).

(iii) United Kingdom — winter 1977/78 (Decision of 18 February 1978).

— Contribution to the special fund in favour of stock farming, distribution of lump-sum aid per animal against proof of loss.

— Subsidy to the local authorities to repair the damage; aid supplementary to national aid (one third of government aid) against proof of expenditure.

(iv) Floods during May 1978 in the Federal Republic of Germany (Decision of 19 July 1978).

Baden-Württemberg:

— no allocation,

— payment to Chapter 0302, Title 25102.

Hessen:

— no allocation,

— payment to Chapter 1702, Title 11951.

Rhineland-Palatinate:

— supplementary aid to 20 victims against subsequent proof.

Bavaria:

— supplementary aid to six victims against advance proof.

(v) Floods during August 1978 in Italy (Decision of 27 September 1978).

Piedmont (Val d'Ossola):

— supplementary and specific aid to control a stream whose floods cut the Domodossola-Locarno railway line which serves a large number of frontier workers.

(vi) Earthquake on 3 September 1978 in the Federal Republic of Germany (Decision of 13 September 1978).

Baden-Württemberg:

— no allocation,

— payment to Chapter 0302, Title 25102.

(vii) Floods in south-western France (Decision of 21 September 1977):

— amount of the aid 1·8 m.u.a.,

— distribution of the aid according to the damage established to the seven most affected departments, 70 % to Le Gers:

  — direct aid to individuals,

  — aid for the rebuilding of infrastructures.

(viii) Storms and floods in France (Decision of 15 February 1978):

— amount of the aid 400 000 EUA,

— aid to persons whose goods have been damaged.

(ix) Damage caused by the wreck of the Amoco Cadiz in Brittany (Decision of 22 March 1978):

— amount of the aid 500 000 EUA.

Table 33. Disasters in Italy: position May 1979

Item	Unit of measurement	1977									1978
		August (Tuscany)			October (various regions)					Total	August Val d'Ossola
		Forests	Public works	Total	Val d'Aosta	Piedmont	Liguria	Lombardy	Total		
1. Date of disaster		28 August 1977			7 and 8 October 1977						7August1978
2. Damage	Thousand million lire	1·7	8·7 (1)	10·4 (1)	13·7	205·5	27	38·2	284·4	294·8	117·2
3. EC aid	Million lire	900	596	1 496	66·3	503·7	503	251	1 324	2 820	759
	%	52·2	6·8	14·3	0·5	0·3	1·9	0·7	0·5	1	0·6
P = intended for private individuals		P	—		P	—	—	—			—
4. Commitment	Million lire	358	446	804	64·6	387·8	478	230	1 160·4	1 964	—
	%	40	75	53	97·4	77	95	92	91·6	70	
5. Payment	Million lire	87	(178)	(265)	62·3	– (2)	159 (3)	125	346·3	(611)	—
	%	24	(40)	(33)	96·4	0 (2)	33·3	54·3	29·8	(31)	
6. State of progress of work	%	(24)	40	(33)	100	50/60	50/60	60/70	59	(48)	—
7. Commitments to be made	Million lire	542	150	692	1·7	115·9	25	21	164·2	856	759
	%	60	25	47	2·6	23	5	8	8·4		100

(...) = our estimate.

(1) The data relating to the damage in fact refer not only to 'public works' but to all the various sections of the 'forests' sector.

(2) The region is awaiting the expert opinion (collaudo) of the Politecnico on the quality of the work (the quantity has already been assessed).

(3) The region received a new invoice for Lit 64 million; this has been validated and payment is in progress.

Table 34. Disasters in Italy: chart of procedure

Stage	1977						1978
	August (Tuscany)		October (various regions)				August
	Forests	Public works	Val d'Aosta	Piedmont	Liguria	Lombardy	Val d'Ossola
1. Date of disaster	28. 8. 77	28. 8. 77	7. & 8. 10. 77	*idem*	*idem*	*idem*	7. 8. 78
2. Requests for aid for reconstruction	—	—	14. 10. 77	—	—	—	—
3. Inspection of damage	—	—	20. 10. 77	—	October 1977	October 1977	—
4. Acceptance of EC aid	20. 10. 77	20. 10. 77	13. 1. 78	5. 1. 78	5. 1. 78	3. 1. 78	10. 11. 78
5. Regional law localizing the damage (by province and/or by village and/or by type) identifying the chapters of the budget and indicating what must be done and by whom	7. 4. 78	7. 4. 78	—	21. 2. 78	15. 3. 78	10. 7. 78	—
6. Submission of the project	– (1)	(2)	17. 1. 78(3)	16. 7. 78(4)	23. 6. 78 (5)	— (6)	In progress
7. Approval of the project	– (1)	(2)	18. 1. 78	1. 8. 78	29. 6. 78	14. 9. 78	—
8. Choice of an undertaking after restricted tendering	– (1)	(2)	—	11. 10. 78	8. 8. 78	21. 9. 78	—
9. Signing of the contract	– (1)	(2)	—	22. 12. 78	5. 10. 78	25. 9. 78	—
10. Commencement of work	– (1)	(2)	30. 3. 78	2. 11. 78	22. 8. 78	25. 9. 78	September 1979
11. Audit of work carried out (first)	– (1)	(2)	2. 5. 78	—	3. 10. 78	19. 2. 79	—
12. Payment (first)	(1)	(2)	27. 6. 78	—	20. 10. 78	20. 2. 79	—
13. Anticipated date of completion of work	?	December 1979	Completed in April 1979	October 1979	December 1979	July 1979	May 1980

(1) The EC aid was intended for 205 private individuals for reafforestation.
(2) The EC aid was intended for 13 projects to rebuild roads, banks of streams and canals.
(3) The EC aid was intended for a consortium (of about 500 small landowners) to rebuild water intakes on the Grand Eyvia.
(4) The EC aid was intended to reinforce the banks of the Stura, near the village of Ovada (600 to 700 dwellings affected by flooding.
(5) The EC aid was intended to build two dams on the Angassino by the village of Campo Ligure (5 000 inhabitants), the centre of the village being threatened.
(6) The EC aid was intended to reinforce the path of the Curone stream near the village of Casei Gerola (5 000 to 6 000 inhabitants) threatened by periodic flooding.

Table 35. Procedure

Stages	Baden-Württemberg		Bavaria			Hessen	Rhineland Palatinate
	Floods	Earthquake	Floods			Floods	Floods
			Unterfranken	Oberfranken	Mittelfranken		
1. Disaster	22. & 23. 5. 78 17. & 18. 6. 78	3. 9. 78	22. & 23. 5. 78	22. & 23. 5. 78	22. & 23. 5. 78	25. & 26. 5. 78	23. & 25. 5. 78
2. Inspection of damage	23. 5. 78	3. 9. 78	26. 5. 78	26. 5. 78	26. 5. 78	26. 5. 78	24. 5. 78
3. Acceptance of EC aid	16. 8. 78	20. 10. 78	4. 10. 78	2. 10. 78	4. 10. 78	16. 10. 78	16. 8. 78
4. Decision on the programme of aid — method of implementation — extended programme	30. 5. 78 15. 8. 78	5. 9. 78 26. 9. 78	2. 6. 78	2. 6. 78	2. 6. 78	30. 5. 78	31. 5. 78 4. 10. 78 7. 12. 78
5. Payment (first)							
(a) government	19. 6. 78	18. 9. 78	3. 7. 78	15. 6. 78	15. 6. 78	15. 7. 78	20. 6. 78
(b) EC (funds)	– (1)	– (1)	14. 12. 78	27. 10. 78	5. 2. 79	– (1)	3. 11. 78

(1) It is not possible to itemize the expenditure as the EC funds were used to finance national budgetary expenditure.

Table 36. Germany

Floods: Commission Decision of 19 July 1978: 500 000 EUA (DM 1 296 625): geographical distribution by the Federal Government:

— Baden-Württemberg:	DM 1 051 563
— Bavaria:	DM 70 018
— Hessen:	DM 35 009
— Rheinland Palatinate:	DM 140 035
Total:	DM 1 296 625

Earthquake: Commission Decision of 13 September 1978: 200 000 EUA (DM 513 406).

Payments by the Commission:

— 2 August 1978:	DM 1 296 625
— 25 September 1978:	DM 513 406

Baden-Württemberg				Bavaria		Hessen		Rhineland Palatinate	
Floods		Earthquake (1)		Floods		Floods		Floods	
Dates:	22 to 23 May 1978, 17 and 18 June 1978	Date:	3 September 1978	Dates:	22 and 23 May 1978	Dates:	25 and 26 May 1978	Dates:	23 to 25 May 1978
Damage:	DM 294 349 000	Damage:	DM 110 000 000	Damage:	DM 16 500 000	Damage:	DM 10 506 728	Damage:	DM 10 520 161
30. 5. 78:	Decision by Land to implement aid programme	5. 9. 78:	Decision by Land to implement aid programme	2. 6. 78:	Decision by Land to implement aid programme	30. 5. 78:	Decision by Land to implement aid programme	31. 5. 78:	Decision by Land to implement aid programme
7. 6. 78:	Land funds made available	14. 9. 78:	Notification by telex of Commission Decision	15. 6. 78:	First payments to victims	5. 7. 78:	Land funds made available: DM 1 000 000	16. 6. 78:	Land funds made available
19. 6. 78:	First payments by Land to victims	18. 9. 78:	First payments to victims from Land funds	20. 7. 78:	Notification by telex of Commission Decision	15. 7. 78:	First payments by Land to victims	20. 6. 78:	First payments to victims from Land funds
16. 8. 78:	Receipt of EC funds: DM 1 051 563	26. 9. 78:	Decision by Land to extend aid programme: reconstruction — building of houses more resistant to earthquakes (2)	27. 7. 78:	Decision by Land to grant EC aid to a maximum of three victims per Bezirksregierung	16. 10. 78:	Receipt of EC funds: DM 35 009	16. 8. 78:	Receipt of EC funds: DM 140 035

(1) Insurance against earthquakes has been compulsory since 1971.

(2) The programme is spread over several years — payment of aid in accordance with progress of the work.

Table 36. Germany *(cont'd)*

Baden-Württemberg		Bavaria	Hessen	Rhineland Palatinate
Floods	Earthquake (1)	Floods	Floods	Floods
15. 8. 78: Decision by Land to extend aid programme and allocation of EC funds to expenditure relating thereto	20. 10. 78: Receipt of EC funds: DM 513 406	3. 8. 78: List of private individuals entitled to EC aid	28. 12. 78: Payments by Land to victims: DM 968 259·45	4. 10. 78: Decision by Land
		4. 10. 78: Receipt of EC funds: DM 70 018	No aid complementary to the EC funds	7. 12. 78: Distribution of EC funds to 20 serious cases (private individuals)
Aid to private individuals for the two disasters		27. 10. 78: First payment of EC aid to a victim		3. 11. 78: First payment from EC funds to victims
Amount made available: DM 10 000 000 Payments to victims at: — 31 December 1978: DM 5 226 781 — 31 May 1979: DM 5 648 595		5. 2. 79: Penultimate payment from EC funds to victim after proof of use of funds (2)		12. 12. 78: Last payments from EC funds to victims For the 20 cases (private individuals): — damage: DM 773 700 — aid from Land: DM 257 400 — EC aid: DM 140 000 Extra-budgetary accounts for the EC funds

(1) Insurance against earthquakes has been compulsory since 1971.
(2) One private individual (a farmer) has not yet justified the use of the EC funds — time limit set at 1 June 1979 (DM 10 000).
Amount of aid for cases:
— damage: DM 1 899 461
— government: DM 171 782
— EC: DM 70 018

Table 37. United Kingdom: Commission Decision of 18 February 1978

(£ 1 000)

	England and Wales	Scotland
European Communities' aid	630	315
A. Aid to farmers — stock breeders (600 recipients) Setting up of the National Farmers Union (NFU) fund		
1. NFU funds	79	32
2. EC funds	190	87
3. National funds	15	—
4. Total	284	119
5. Payments	c. 100 %	c. 100 %
B. Aid to local authorities		
6. EC aid available	440	228
7. Estimated expenditure	6 802	—
8. Actual expenditure submitted by the local authorities	4 698	—
9. Original requests	—	11 127
10. Requests accepted	—	3 987
11. Borne by local authorities	3 567	2 600
12. Borne by government	960	1 040
13. Borne by the EC (additional sum under item 12)	258	347
14. Paid out of national funds	—	937
15. Paid out of EC funds	—	—

CHAPTER 5 — EUROPEAN REGIONAL DEVELOPMENT FUND

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BUDGETARY MANAGEMENT IN THE FINANCIAL YEAR 1978

5.1. The objectives of the ERDF and the detailed rules for assistance from the Fund were first laid down in Council Regulation (EEC) No 724/75 of 18 March 1975 (1) under which the Fund was endowed with 1 300 m.u.a. for the period 1975 to 1977.

The Regulation was to be re-examined by the Council before 1 January 1978 but it was not possible for the Council to adopt the proposals for amendment submitted to the Commission until 6 February 1979 and the Regulation came into force on 12 February 1979 (Council Regulation (EEC) No 214/79 (2)).

5.2. In 1978 the management of the Fund was therefore at an intermediate stage. In particular, the allocation for the financial year was fixed essentially by budgetary means, while awaiting the decisions which would form the subject of the new Regulation.

The Commission continued its management in accordance with the old provisions as long as the new Regulation had not been approved, that is to say, until the closure of the financial year — especially in respect of the table setting each Member State's quota of the appropriations available.

The revenue and expenditure account for the financial year was adopted on the basis of the provisions of the new Regulation, which had been approved in the meantime, and the utilization of appropriations available is presented in it, in accordance with the new percentage distribution of the Fund between the Member States.

The allocation 'outside the quota' which is provided for by the new provisions but which did not exist in the former Regulation, could obviously not be used. It was therefore carried over to the following financial year, as declarations recorded in the minutes of the Council meeting of 6 February 1979 allowed the quotas to be applied over the whole three-year period only (1978 to 1980), rather than annually, in order to increase the flexibility with which the appropriations of the Fund are utilized.

Table 38 provides the main data on the utilization of appropriations during the financial year 1978. These data are compared with the results of the application of the old Regulation.

(1) OJ No L 73, 21. 3. 1975, p. 1.
(2) OJ No L 35, 9. 2. 1979, p. 1.

Table 38. Commitment appropriations available and appropriations outstanding at the end of the financial year 1978

Distribution by Member State in accordance with the scales laid down in Regulations (EEC) No 724/75 and (EEC) No 214/79 (1)

(EUA)

Member States	On the basis of Regulation (EEC) No 724/75 (%)	On the basis of Regulation (EEC) No 214/79 (%)	Total appropriations available		Commitments made during year				Appropriations outstanding at end of year	
			On the basis of Regulation (EEC) No 724/75 (1)	On the basis of Regulation (EEC) No 214/79 (1)	Commitments	Percentage of total committed	Percentage committed of national quota: On the basis of Regulation (EEC) No 724/75	Percentage committed of national quota: On the basis of Regulation (EEC) No 214/79	On the basis of Regulation (EEC) No 724/75 (1)	On the basis of Regulation (EEC) No 214/79 (1)
Belgium	1·5	1·39	8 718 702·88	7 675 807·88	6 147 360·17	1·11	70·50	80·08	2 571 342·71	1 528 447·71
Denmark	1·3	1·20	7 598 443·30	6 668 843·30	5 576 419·07	1·00	73·38	83·61	2 022 024·23	1 092 424·23
Germany	6·4	6·00	54 695 696·92	50 628 696·92	49 259 312·67	8·85	90·06	97·29	5 436 384·25	1 369 384·25
France	15·0	16·86	87 157 331·03	93 066 101·03	82 625 549·70	14·85	94·80	88·78	4 531 781·33	10 440 551·33
Ireland	6·0	6·46	34 969 515·13	35 765 485·13	35 148 801·59	6·32	100·51	98·27	–179 286·46	616 683·54
Italy	40·0	39·39	233 425 253·98	218 438 358·98	220 327 512·23	39·60	94·38	100·86	13 097 741·75	–1 889 153·25
Luxembourg	0·1	0·09	581 000·00	496 755·00	501 548·53	0·09	86·32	100·96	79 451·47	– 4 793·53
Netherlands	1·7	1·58	9 877 000·00	8 720 810·00	8 183 688·01	1·47	82·85	93·84	1 693 311·99	537 121·99
United Kingdom	28·0	27·03	162 812 438·29	149 324 523·29	148 588 727·17	26·71	91·26	99·50	14 223 711·12	735 796·12
Specific Community measures (2)			—	29 050 000·00	—	0·00	—	0·00	—	29 050 000·00
Total			599 835 381·53	599 835 381·53	556 358 919·14	100·00	92·75	92·75	43 476 462·39	43 476 462·39

(1) As laid down in Articles 2 of Regulations (EEC) No 724/75 and (EEC) No 214/79.

(2) 5 % of the Fund's financial resources (Article 2 (3) (b) of Regulation (EEC) No 214/79).

Commitments

5.3. The commitment appropriations available for the financial year 1978 amounted to 599·83 MEUA distributed as follows:

— Appropriations provided under the budgetary procedure: 581·00 MEUA,

— Appropriations outstanding from 1977 (1): 15·03 MEUA,

— Appropriations available through release of funds: 3·80 MEUA,

— Total available in 1978: 599·83 MEUA.

5.4. The Commission granted the Member States a first instalment of contributions to investment projects which amounted to approximately 100 MEUA in May 1978. A decision to grant the second instalment, amounting to 151 MEUA, was taken in September 1978. A third and larger instalment, of approximately 304 MEUA, was allotted in December 1978. The distribution of the commitments, approximately 556 MEUA in all, is shown in Table 38.

5.5. The commitment appropriations available for 1978 and from the previous financial year, were utilized up to 92·75 %.

The large amount of appropriations available at the end of the financial year (43 MEUA) was the result of non-utilization of 5 % of the appropriations for specific Community measures, and of the placing in reserve of 2 % of resources, corresponding to the national quota granted to France by the revised Regulation.

Consequently, the percentage committed is less than in the financial year 1977, during which it reached 98 % of appropriations available.

5.6. The utilization of appropriations, by Member State, under the new distribution table, shows that the national quotas for Italy and Luxembourg were exceeded. On the basis of the old distribution table, Ireland would have exceeded its quota.

It should be remembered, however, that the declaration of the Council allowed each national quota to be utilized over a period of three years.

5.7. A more detailed analysis reveals that 183 MEUA or 33 % were used to finance 573 industrial, craft or service projects and 373 MEUA or 67 % to finance 1 027 infrastructure investment projects directly linked with the promotion of industrial, craft or service developments and of agricultural infrastructures. The division of contributions between industrial projects and infrastructure projects was 25 % and 75 % in 1976 and 41 % and 59 % in 1977. The tendency recorded in 1977 for contributions to industrial investments to increase has, therefore, been reversed.

Investments financed for the benefit of infrastructures were, in 1978, generally concerned with projects for improvement or equipment of industrial areas and with road and port infrastructures or projects for the benefit of less-favoured mountain areas.

The sectors mainly affected by the industrial projects were the chemical, metallurgical, automobile, woodworking, food, electrical and electronic, non-ferrous metals, rubber and plastics industries.

Payments

5.8. Payment appropriations available in 1978 totalled approximately 608 MEUA of which 525 MEUA were for 1978 and 83 MEUA were carried forward from 1977 (2).

Total payments reached 255 MEUA, or 42 % of the appropriations available during the financial year.

Only one third of the total amount of payment appropriations for 1978 was utilized. The balance of non-utilized appropriations (353 MEUA) was carried over to 1979. The appropriations carried forward from 1977 were given priority and utilized 100 % (see Table 39).

(1) As the balance sheet for 1978 was expressed in EUA, the appropriations outstanding from earlier years have been converted into EUA without changing their exchange value in national currency.

(2) As the budget is now expressed in EUA, the payment appropriations carried over have been converted into EUA.

Table 39. Utilization of payment appropriations in 1978

Distribution by Member State

(EUA)

Member State	Payment appropriations for the financial year	Appropriations carried over from previous year	Payments made from appropriations in the year in respect of:		Payments made in respect of previous commitments from appropriations carried over	Total payments made during year	Appropriations carried over to 1979
			Commitments made in the year	Commitments awaiting payment at the end of the 1977 financial year			
Belgium			—	3 426 393·94	2 544 086·39	5 970 480·33	
Denmark			—	618 906·59	764 034·07	1 382 940·66	
Germany			14 598 830·81	2 959 963·01	24 623 482·72	42 182 276·54	
France			8 721 913·16	25 254 122·60	6 669 822·77	40 645 858·53	
Ireland			11 294 058·00	2 356 225·07	6 810 131·69	20 460 414·76	
Italy			42 785 291·54	24 145 953·84	11 599 096·61	78 530 341·99	
Luxembourg			—	212 265·47	—	212 265·47	
Netherlands			—	1 872 311·91	4 602 725·61	6 475 037·52	
United Kingdom			26 101 566·14	7 460 713·90	25 469 922·68	59 032 202·72	
Total	525 000 000·00	83 083 302·54	103 501 659·65	68 306 856·33	83 083 302·54	254 891 818·52	353 191 484·02

5.9. The Commission attributes the serious delay in payments to specific causes. The 1978 payment appropriations were overestimated, since they had been calculated in relation to commitment appropriations of which the amount was subsequently reduced during the procedure for approving the budget without there being a reduction in the payment appropriations.

Moreover, the delay in adopting the amended Regulation relating to the Fund meant a considerable reduction in the rate at which Member States submitted requests for payment, and also that it was impossible in 1978 to make the 'accelerated payments' provided for in the new Regulation. The fact that the Member States submitted more new projects with longer start-up periods also caused a reduction in the rate of payments.

The explanations given by the Commission call for the following comments.

While it is true that the appropriations were increased from 460 MEUA to 525 MEUA when the 1978 budget was adopted, this is not a large increase in absolute terms and is in any case insignificant compared with the 353 MEUA which remained available at the end of the financial year.

5.10. The Commission refers to a reduction in the rate of requests for payment, for which there are a variety of reasons. The effect of such a reduction on the utilization of payment appropriations cannot be denied but this development merely confirms the fears expressed by the Court in its first Annual Report about the under-use of payment appropriations from the Fund.

5.11. An examination of more than 80 % of the grant decisions shows that the average amount of time allowed for the completion of projects is no more than three and a half years.

Nevertheless, consideration must be given to the fact that the related payments are made over, on average, a longer period in accordance with a set timetable (year of commitment 35 %, second year 35 %, third year 20 %, fourth and fifth years 5 %) and that it usually takes five years to close the project.

5.12. The amended Regulation makes provision for using the accelerated payment procedure in the future in order to remedy the delays in payments.

This procedure involves paying 75 % of aid from the Fund to a project on the sole condition that at least 30 % of the payments forming the basis for aid have been made.

The Court of Auditors considers that this remedy, which makes it possible for the Fund to bear a large part of the initial payments granted by the Member States for the various projects, should be accompanied by appropriate audit operations.

Reply of the Commission to paragraphs 5.1 to 5.12

The comments of the Court of Auditors concerning the administration of the ERDF in 1978 call for the following general remarks from the Commission.

In 1978, the ERDF was administered in accordance with Regulation (EEC) No 724/75, all the provisions of which were still in force then apart from the limits to the resources provided for in Article 2 (1) for the period 1975 to 1977 and the distribution of these resources also provided for in Article 2 (1).

As the ERDF continued to operate after 1977, and its resources had been totally committed in the period 1975 to 1977 within the limits provided for in Article 2 (1) of Regulation (EEC) No 724/75, the budgetary authority, i.e. the Council and Parliament, adopted an allocation for 1978.

As regards the distribution of the ERDF's resources, the Commission was no longer obliged to apply the table in Article 2 (1) of Regulation (EEC) No 724/75, since this table applied only for the period 1975 to 1977. However, pending adoption of the new distribution of national shares, the Commission, while setting aside 5 % in anticipation of the creation of a non-quota section, in fact continued to apply the old distribution scale for the quota section, which explains, moreover, why the sum of 43 MEUA in appropriations for commitment was still available at the end of 1978 (see point 2).

Following conciliation between Parliament and the Council, Article 2 (3) (a) of Regulation (EEC) No 214/79 setting out the new distribution of ERDF resources was the subject of the following statement recorded in the Council minutes:

> *'The Council notes that the national quotas referred to in Article 2 (3) (a) can in practice be interpreted flexibly in that the Commission, which is responsible for administering the Fund, can apply each national quota for a three-year period and not necessarily within each financial year, without this preventing the financing of projects submitted by a Member State during a given year up to the amount of its annual quota.'*

Article 2 (3) (b) of Regulation (EEC) No 214/79 concerning the resources earmarked for the non-quota section was likewise the subject of a statement recorded in the Council minutes:

> *'In order to increase the flexibility of use of Fund appropriations, it is understood that the rule whereby any unused balance for non-quota projects is to be used for quota projects will not be applied annually, but only for the period 1978 to 1980 as a whole.'*

It emerges from these statements that, although the amended ERDF Regulation did not enter into force until February 1979, the legislators intended to enable the new distribution of ERDF resources to be applied flexibly as from the financial year 1978.

Consequently, a comparison (Table 38) of the utilization of appropriations in 1978 on the basis of the old and the new distribution of shares is rather unrealistic.

As regards the utilization of the appropriations for commitment in 1978 (point 5.5), it is true that the sum of 43 MEUA was still available out of the 1978 appropriations, but only in anticipation of the approval in 1978 of the creation of the non-quota section and the application of the new distribution of national shares. Even if this amount had been used, the resources available would not have been sufficient to meet the commitments relating to the projects approved by the ERDF Committee in 1978. Part of the commitments had been carried forward to the financial year 1979, which is why commitment decisions totalling 60 MEUA for projects approved in 1978 were taken in January 1979.

As regards the delay in payments in 1978 (points 5.9 to 5.11), the Court of Auditors reports as one of the causes the fact that, when cutting the 1978 appropriations for commitment from 750 MEUA to 581 MEUA, the budgetary authority did not make a corresponding cut in the appropriations for payment (525 MEUA) entered in the preliminary draft budget, and the fact that it was impossible in 1978 to make the accelerated payments for which the amended ERDF Regulation provides.

It is undeniable that one of the main causes of the slackening of the pace of payments in 1978 was the delay in adopting the amended Regulation; it should have been adopted at the end of 1977. This delay undoubtedly prompted the Member States to postpone the submission both of applications for ERDF assistance and payment applications, pending possible amendments. As a result, more than half, i.e. 308 MEUA, of the appropriations for commitment available

in 1978 was not committed until December 1978, with the result that very few payment applications were made against this batch of aid in 1978.

In addition, the pattern of payments was also affected by the fact that the Member States introduced more new projects, the point being that the first payments on entirely new projects are smaller than those for existing projects, in respect of which the Member States themselves have made substantial payments.

Moreover, in anticipation of the system of accelerated payments, which may amount to 75 % of the amounts committed, allowance was made, when the preliminary draft budget for 1978 was prepared, for the possibility of a faster rate of payments as provided for in the Commission's proposals to the Council for amendments to the ERDF Regulation.

The Commission calculates the timetable for payments (point 5.11) on the basis of the experience gained since 1975 concerning the pattern of payments in relation to commitments. Experience shows that, in general, commitments are settled over a five-year period. It should be noted in this respect that the information concerning project-completion times given when applications for assistance from the Fund are submitted is only in the nature of a forecast: it should not be thought surprising if in individual cases, the scheduled times are sometimes in fact overrun, occasionally by a wide margin, perhaps for business-cycle reasons, or as a result of the constraints of the internal budgetary policy of Member States.

It should be noted, as regards the comments of the Court of Auditors concerning the accelerated payments procedure (point 5.12) provided for in the amended ERDF Regulation, that, under the rules for the administration of the ERDF, the accelerated payments will in no case exceed the Member State's payments. Moreover, the provisions of Article 9 of the ERDF Regulation concerning inspections are applicable in their entirety, including the possibility of recovering any ERDF assistance paid in error. However, the Commission will take care to ensure that, when the programmes for on-the-spot inspections are drawn up, appropriate arrangements will be made for checking projects for which accelerated payments have been made.

REGIONAL DEVELOPMENT PROGRAMMES

5.13. Under the provisions of Article 6 (1) of Regulation (EEC) No 724/75, investments may benefit from the Fund's assistance only if they fall within the framework of a regional development programme.

The programmes in question, which were worked out within a common outline adopted by the Regional Policy Committee, reached the Commission before the prescribed date of 31 December 1977 (1). They were the subject of an opinion by the Regional Policy Committee of 6 June 1978 and 26 October 1978 and the Commission published the opinion and recommendations on these programmes in May 1979 (2).

The development programmes did not become available to the Court of Auditors until the end of 1978. The Court submitted them to brief examination in order to check whether they constituted a valid source of information for the consideration of investment programmes granted financial assistance by the Community. The examination revealed that the programmes submitted sometimes failed to provide some of the information required by the outline programme; this was especially the case as regards the quantification of the objectives to be achieved and the anticipated effect of the various social and structural measures and policies. It became clear that it is absolutely essential for the objectives and the development measures to be specified in much more detail and in qualitative terms.

Reply of the Commission to paragraph 5.13

As regards the Court's comments concerning regional development programmes (point 5.13), reference should be made to the Commission opinion of 23 May 1979 on the subject (3) and the Commission recommendation to the Member States of the same date (4).

INVESTIGATION OF REQUESTS FOR ASSISTANCE

5.14. The absence of precise terms of reference undoubtedly affected the examination of requests for assistance by the administrative departments. This examination had, in fact, to be restricted at least in the majority of cases to verifying that the information supplied in the requests for assistance satisfies the requirements laid down in Article 7 (2) and (3) of the

(1) Two Member States, the United Kingdom and Belgium, sent in a new version of the programmes in 1978.
(2) OJ No L 143, 12. 6. 1979, pp. 7 and 9.
(3) OJ No L 143, 12. 6. 1979, p. 7.
(4) OJ No L 143, 12. 6. 1979, p. 9.

Regulation, without being able to make any real assessment of the value of the investments in the light of the criteria laid down in Articles 5 and 6 of the Regulation.

Reply of the Commission to paragraph 5.14

The comments of the Court of Auditors concerning the examination of requests for assistance (point 5.14) touch on the preparation of Commission decisions and therefore concern the appropriateness of such decisions. As long as a decision has not been taken, the Commission alone is responsible for assessing matters.

The process of verifying that the applications for assistance satisfy the provisions of Article 7 (2) and (3) of the ERDF Regulation and the internal consultation procedures established for these applications inevitably entail an assessment in the light of the criteria set out in Articles 5 and 6. In addition, projects likely to be presented to the Commission with a view to obtaining ERDF assistance are discussed in detail with the Commission departments in the context of close bilateral contacts, in particular with the Member States which are the main recipients of ERDF assistance. It goes without saying that, during these discussions prior to the submission of applications for ERDF assistance, potential projects are assessed in the light of the conditions set out in Articles 5 and 6 of the ERDF Regulation; as a result of this assessment the Commission departments sometimes reject projects before a formal application for ERDF assistance is made.

Remarks of the Court on the reply of the Commission to paragraph 5.14

The comments of the Court in paragraph 5.14 clearly refer to requests for assistance upon which a decision has already been taken and not those still being examined.

Moreover, the task conferred upon the Court of Auditors by the Treaties includes the assessment of the justification of the item of expenditure from the point of view of the sound financial management of the funds managed by the institutions.

Furthermore, the Court of Auditors is not of the opinion that the verification that the requests for assistance satisfy the requirements laid down in Article 7 (2) and (3) of the ERDF Regulation and the internal consultation procedures established in respect of these requests automatically imply an assessment in respect of the criteria set in Articles 5 and 6.

These latter criteria, in fact, require a more general assessment of the value of the investments: consistency with other programmes or objectives, the position of the economic sector concerned and the profitability of the investment, etc. It would be advisable for the bilateral contacts with the Member States, referred to by the Commission, were formalized to a greater extent.

AUDITS ON THE BASIS OF SUPPORTING DOCUMENTS

5.15. In 1978 the Court carried out audits by sampling of the investment projects granted financial assistance by the Community.

The sampling covered projects already completed: to be more specific, 50 projects selected on the basis of their financial magnitude (in accordance with the distinction made by the basic Regulation between investments equal to or above and investments lower than 10 MEUA), the type of investment (industrial or infrastructural), and their relationship to representative sectors of the economy, such as the chemical sector in the case of industry, and ports and water supply installations in the case of infrastructures.

Audit of the projects concerned consisted of scrutiny of the files kept by the administrative department. No irregularity worthy of mention was found in the procedure for payment of assistance from the Fund.

5.16. The Court also examined decisions relating to projects approved for financial aid from the financial year 1975 onwards which were scheduled to be completed by 31 December 1977.

With regard to the decisions as a whole, about 18 % of the aid granted still remained to be paid at the end of the financial year 1978. 23 decisions, corresponding to 47 projects, had not given rise to any payment at that date.

Reply of the Commission to paragraphs 5.15 and 5.16

As regards the project-completion timetable (point 5.11), the Court of Auditors should refer to the Commission's comment concerning actual completion times (point 5.11). The Court of Auditors is aware that the Commission departments periodically examine all the projects financed and contact the Member States if work is behind schedule.

In any case, the Commission finds it quite normal and justified, in the case of certain decisions, that ERDF

payments are not made on the due dates if completion of the projects concerned is deferred or slowed down, as a result, for instance, of public spending cuts or technical problems.

ON-THE-SPOT AUDITS

5.17. In quantitative terms, the Commission's present aim is to check about 10 % of the ERDF projects to be financed on the date when the audit programme is finalized.

In 1978, the Commission carried out 24 on-the-spot audits covering 208 projects, of which 108 were industrial, craft or service projects and 100 infrastructure projects.

The pattern of audit operations from 1975 to 1978 inclusive was as follows:

	Industrial projects	*Infrastructure projects*	*Total*
1975:	9	35	44
1976:	23	66	89
1977:	48	71	119
1978:	108	100	208

5.18. The objective of checking about 10 % of the projects makes it difficult to carry out in-depth inspections, given the large number of projects to be audited in the course of a single visit. Moreover, account must be taken of the differences in auditing procedures in the different countries (the verifications and inquiries are carried out by the national authorities, each with its own auditing system, in cooperation with Commission staff), the increasing number of projects financed, the way in which they are spread among the regions and the complexity of supporting documents relating to expenditure.

As the Court of Auditors has been able to confirm during visits in which it participated (on-the-spot audits organized by the Member States at the request of the Commission), it has not always been possible to make a satisfactory economic assessment of the value of the investments or to check all supporting documents.

5.19. The on-the-spot audits in Latina covered six industrial investments, including one of considerable size, a major industrial infrastructure project and two agricultural infrastructure projects.

5.20. One of the industrial investments inspected concerned a motor vehicle assembly factory where the number of employees (6 700) proved to be greater than the 2 640 persons mentioned in the request for financial assistance.

The factory was built for the production of a small-capacity model but production ceased about six months after the work was completed. During the inspection, it was found that only part of the machinery originally purchased with assistance from the Fund was still used in the production process.

The Court would like to know in what manner the question of possible recovery of the aid granted to this project has been pursued.

5.21. As regards aid for the creation of an industrial zone in the province of Latina, the on-the-spot inspection established that the road works, the construction of a sewerage and water supply and purification system estimated for had been carried out and that eight factories, representing approximately 2 500 new jobs, were established in the zone. On the basis of the first expenditure estimates, of the order of 10 thousand million lire, the Fund provided 1·64 thousand million lire of which 1·24 thousand million lire has been paid out. The Court considers that the estimates have not proved to be very accurate since, in the meantime, the ultimate cost of the operation has been estimated at between 20 and 22 thousand million lire, double the original estimate, mainly on account of the increased cost of compulsory purchase.

5.22. The audit carried out in Schleswig-Holstein (Federal Republic of Germany) covered eight industrial projects and nine small-scale infrastructure projects.

5.23. During the inspection it became clear that the payment made by the Fund for an infrastructure project exceeded the prescribed maximum of 30 % of the expenditure incurred by the public authorities. The reason for this is that the Commission had not been informed that the amount invested fell short of the amount provided for in the request for assistance. In the meantime the Commission has recovered the excess amount paid.

5.24. In connection with an infrastructure project the refunds made in fact related to expenditure incurred before 1 January 1975, the earliest date for expenditure on investments financed by the ERDF to be taken into account for reimbursement.

5.25. The Court considers that the discrepancies referred to in the previous paragraph are due to the fact

that exchanges of information between the Member States and the service responsible for management have been incomplete and not continuous.

5.26. The audit in the north of England covered six investment projects concerned with industry and tourism and seven with infrastructures.

Some of the industrial and tourist projects inspected, in particular one involving the building of a small hotel near Allonby, were only of very limited value for the economic development of the region.

In one industrial project the number of jobs proved to be less than the number given in the decision. The same applies to the tourist project referred to above.

It should be stressed that, even if it does not correspond to a policy adopted in respect of intervention from the Fund, the aid granted to small projects represents an increasing share of the financing.

5.27. Five industrial and four infrastructure projects were the subject of inspection in Limousin (France).

5.28. During the audit, it was found that an industrial project was executed jointly by two companies belonging to the same financial group, but that only one of them is engaged in production and, accordingly, in a position to create new jobs, whereas the other is a holding company.

The Fund granted assistance to the 'operational' company although the national subsidy, which was the basis on which Community aid was calculated, was calculated on the basis of the investment as a whole thus including the proportion not borne by the company receiving the assistance.

After inquiries by the Court of Auditors, the Commission did not consider it necessary to re-examine the case.

5.29. The audits of industrial projects which the Commission carried out in France came up against the prohibition, which is still maintained, against the conduct of on-the-spot inspections, with the result that the inspections were restricted to supporting documents. This state of affairs, which was criticized in the Court's previous Report, is still being examined by the Commission and the French authorities concerned. Whatever the outcome, there can be no denying that French law governing verification of grants of aid from public funds provides in certain cases for the power to conduct on-the-spot audits at the recipient's premises. A Community audit should be recognized as having at least the same freedom of action as that conferred by law on a national audit.

The Court would like to know the results of the bilateral contacts in progress, as they will undoubtedly have a bearing on its own work programme.

Reply of the Commission to paragraphs 5.18 to 5.29

The comments of the Court of Auditors concerning on-the-spot audits call first of all for a general remark from the Commission.

The Commission agrees with the Court of Auditors that the target of checking about 10 % of the projects (point 5.18) will be difficult to meet, taking into account the increase in the number of projects aided and the staff complement of the Directorate-General for Regional Policy. The Commission would emphasize, however, that although the projects to be checked are chosen on a sampling basis, the inspections are as thorough and as complete as possible.

As regards the assessment of the impact of the projects aided by the ERDF on the socio-economic development of the regions concerned, the Commission is continuing its efforts to achieve better results in this area. These efforts will be facilitated by regional development programmes, which constitute a reference framework.

As regards particular cases (points 5.20 to 5.29), the following points should be noted.

(a) Project No 75/05/01/003 (point 5.20): the Commission has approached the Italian authorities several times. It appears that the Italian authorities are still looking into the matter. Once the Commission has been informed of their findings, it will be able to consider them and come to a conclusion with regard to the ERDF contribution to the project.

(b) Project No 76/05/03/007 (point 5.21): the fact that the final cost is well in excess of the total cost estimated at the time of the application is due partly to inflation and partly to a change in the legal basis for the compulsory purchase system. Reference should be made to the Commission's comment concerning actual completion times of projects (point 5.11).

(c) Project No 77/02/04/002—004 (point 5.23): it was in fact during the on-the-spot audit that the Commission discovered that the amount indicated as expenditure by the public authority in the completion report drawn up by the Member State (on the basis of which final ERDF payment was made) was higher than the actual figure. The ERDF aid paid in error has since been recovered.

(d) Project No 77/02/04/002—008 (point 5.24): the exact state of affairs was ascertained during the same on-the-spot audit. The Member State's completion report, on the basis of which ERDF payment was made, indicated that the expenditure in question had been incurred after 1 January 1975. The ERDF aid paid in error has since been recovered.

Under the ERDF Regulation, payments are made on the basis only of declarations or certificates from the Member States: the purpose of the on-the-spot inspections is to check the supporting documents and establish that the structures for which payment is made have actually been built. After the on-the-spot checks have been made the Member States are asked to make any improvements needed. The question of the accuracy of the information provided by the Member States in the completion reports was raised at the Fund Committee meeting on 12 July 1979.

(e) The comments concerning projects concerned with industry and tourism in the north of England (point 5.26) concern the appropriateness of decisions taken by the Commission. It should be noted, however, that it may be the case that regional development is furthered by the establishment of diversified firms, even if each individual firm is small. The Commission will continue to encourage the development of small firms in the light of the regional development programmes: Under the third subparagraph of Article 4 (1) (a) of the amended ERDF Regulation, the Commission can even treat as a single investment a group of small investments in the field of handicrafts or tourism which are related geographically, provided that at least 10 new jobs are created or 10 existing jobs are maintained as a result of the group of investments.

(f) Industrial Project No 75/03/03/077—002 (point 5.28) was indeed carried out jointly by two companies, one a private real estate company and the other an industrial company. The object of the programme carried out by the two companies was a single capital project to which each company contributed according to its function. It was therefore justified to take the national subsidies for the entire investment as the basis for calculating Community aid, and not the subsidy for one of the companies contributing towards the investment.

(g) In the context of bilateral relations with France concerning inspections of industrial projects (point 5.29), in December 1978 the French authorities agreed that, for forthcoming Community audits in a first stage, the competent French departments would visit the industrial companies and, in the course of the visit, inform the Commission representatives and, in the second stage, the French officials would be accompanied by Commission officials. The first stage of this procedure was put into practice during the inspection visit in Brittany on 14 to 18 May 1979.

CHAPTER 6 — ENERGY, RESEARCH AND INVESTMENT

(Chapters 32 and 33 of the general budget)

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INTRODUCTION

Organization

6.1. The expenditure programmes financed by Chapters 32 and 33 of the general budget are administered by three Directorates-General responsible to a single member of the Commission. DG XVII administers the action programme under the Communities' energy policy (Chapter 32 of the budget). DG-Joint Research Centre (JRC) administers the 'direct action' activities (Articles 330 to 333 of the budget) of the four research establishments at Ispra, Geel, Petten and Karlsruhe. These activities include both multiannual programmes and work for third parties. DG XII — which is responsible for the development of the research policy — administers 'indirect action' research activities (Articles 335 to 338 of the budget) which consists mainly of multiannual research programmes involving contracts, usually of a cost-sharing nature, with public and private bodies in the Member States.

Budget and outturn

6.2. The total appropriations made available under these chapters of the general budget, including appropriations brought forward from the previous year, amounted to: commitment appropriations, 459 MEUA; payment appropriations, 375 MEUA. Commitments entered in the year totalled 219 MEUA, and payments in the year totalled 192 MEUA. Tables 40 and 41 at the end of this chapter show the breakdown of these figures in terms of the activities mentioned above.

The Court's audit of the 1978 accounts

6.3. The Court has carried out examinations at the three Directorates-General concerned. In addition, on-the-spot audit visits have been made to three of the four establishments of the JRC (the centre at Karlsruhe being the exception) and to contractors undertaking

research work for DG XII and DG XVII. In this work the Court has directed its attention mainly, but not exclusively, to the audit of accounting systems. Paragraphs 6.4 to 6.6 below contain general observations arising from this work and paragraphs 6.7 to 6.60 more particular audit matters.

GENERAL OBSERVATIONS

Budget transparency

6.4. Appropriations and expenditure on research and development are included in different articles and even in different chapters of the general budget according to whether the activity concerned forms part of the energy programme, the direct action programme or the indirect action programme. It follows that, where activity on the same subject is being conducted under two or even three of these programmes, this procedure tends to obscure the full extent of the Commission's involvement in this domain.

For example, in 1979, research into and development of solar energy is funded under Article 324 of Chapter 32 (energy programme), under Article 330 of Chapter 33 (direct action programme) and under Article 335 of Chapter 33 (indirect action programme).

The Court suggests that the Commission should make also the total allocation and use of resources in particular fields of research and development more readily apparent in the budget.

Reply of the Commission to paragraph 6.4

The specific nature of the Community measures (development of a particular technology to industrial exploitation, Community research carried out by the Community itself at the Joint Research Centre and Community research carried out in national laboratories with the financial help of the Community) requires certain distinctions to be made in the presentation of the budget appropriations concerned. These distinctions are that:

(i) appropriations intended for Community energy policies such as demonstration projects should be entered in Chapter 32, and

(ii) appropriations intended for research itself, whether carried out by a Community institution or not, should be grouped in Chapter 33.

However, the Commission will examine ways of making the connection between various measures in the same field more apparent in the presentation of the budget.

6.5. The budget, in so far as it concerns energy and research, is also less clear than it might be in its treatment of personnel expenditure. In the case of DG-JRC, all expenditure on personnel, including headquarters, salaries, etc., is allocated to research objectives. For DG XII, only the expenditure on personnel in the scientific divisions is allocated to research objectives and the rest is charged to Title 1 of the general budget (expenditure relating to personnel working with the Commission). For DG XVII, no personnel expenditure is charged to the programmes; it is all charged to Title 1. The Court recommends that the accounting treatment accorded to personnel expenditure in the energy and research field should be reviewed with the aim of adopting a more consistent approach.

Reply of the Commission to paragraph 6.5

The present situation is that Council Decisions relating to a research programme lay down the implementing conditions for that programme in respect not only of appropriations but also of personnel. The allocation to research objectives of personnel expenditure which is linked to the execution of the research programme is therefore as a result of the Council Decisions. This is not the case, however, with demonstration projects, where the legal basis is a Council Regulation

Evaluation of research programmes

6.6. The Court has carried out a preliminary review of the Commission's systems for monitoring and evaluating the results of the research in which it is engaged but will address itself more fully to this problem in future audit programmes. Meanwhile, the Court welcomes certain initiatives taken by the Commission: the 1978 Copenhagen seminar on 'the evaluation of research and development' and the proposal to include a programme to study the valorization of research results in the multiannual programme of the JRC, 1980 to 1983. The Court also welcomes the increasing influence of the advisory committees on programme management but would prefer to see them taking a more active role in the financial aspects of the research which they monitor. Similarly, in the area of direct action, the Court, while approving the procedure of six-monthly programme progress reports, suggests that it could give more emphasis to financial aspects. The Court recommends that the Commission provides the advisory committees half-yearly with summarized and transparent financial information which will enable them to carry out more effectively their consultative role in connection with the execution of each programme.

In addition, given the multiannual nature of the direct action programme, which could require reallocation of resources as it develops, the Court sees a need for an overall plan of execution. Such a plan was envisaged by the Commission when proposing the 1977 to 1980

programme to the Council [1], but has not been implemented. As a measure for improving the control of research objectives the introduction of project managers seems to have been a step in the right direction, but the Court is surprised to note that the important post of Director of Projects at Ispra has still not been filled on a permanent basis. Generally, the Court hopes that the Commission, in their efforts to improve their procedures for monitoring and evaluating research programmes, will establish cost-benefit criteria so that programme selection and programme achievement can be tested more objectively.

Reply of the Commission to paragraph 6.6

The Commission will review the possibility of providing the Advisory Committees associated with the management of these programmes with more information of a financial nature. However, the Commission must emphasize that, in its view, the primary role of these Committees is to give the Commission scientific and technical advice and to avoid duplication of effort by coordinating national programmes more closely. The responsibility for carrying out the research programmes must rest entirely with the Commission.

Similarly, the programme progress reports should conserve their scientific/technical character. This does not exclude the possibility of providing the Advisory Committees on the management of programmes with financial information of a summarized and transparent nature.

Further measures are currently being studied with a view to strengthening the internal means of controlling research. As far as cost-benefit criteria are concerned, the Commission will pursue its efforts in close contact with the Member States.

PARTICULAR OBSERVATIONS

CHAPTER 32 — EXPENDITURE UNDER THE ENERGY POLICY

Introduction

6.7. Chapter 6 of the Court's 1977 Report drew attention to the low rate of utilization of appropriations entered in successive budgets to finance action programmes under the Communities' energy policy. The Commission's reply to the Court's observations held out some prospect for an improvement in this situation in 1978 and the Court has enquired into the matter again. It finds that the hoped-for improvement has not been achieved.

Action programmes under the Communities' energy policy

6.8. These programmes are intended to assist in the achievement of the Communities' energy policy objectives. Those implemented to date consist of financial support granted by the Commission to projects in the energy sector carried out by commercial firms or other institutions within the Member States. Generally, the financial support is in the form of subsidies, repayable in certain circumstances, representing a percentage share, usually between 30 and 40 %, of the cost of the project. Projects are selected from proposals submitted by firms or institutions in response to invitations to tender published by the Commission. The first Council Regulation (EEC) No 3056/73 [2], approving one of these action programmes was issued in November 1973 and concerned projects for technological developments in the hydrocarbons sector (budget reference 3200). In July 1976, the Commission itself, acting under powers conferred on it by Article 70 of the Euratom Treaty, issued Regulation (Euratom) No 2014/76 [3] authorizing an action programme for uranium prospecting projects in the Member States (budget reference 321). The Council published further Regulations in June 1978 approving action programmes in the fields of energy savings (budget reference 3240) (Regulation (EEC) No 1303/78) [4] and exploitation of alternative energy sources, including coal gasification and liquifaction, and geothermal resources (budget references 3241-3242) (Regulation (EEC) No 1302/78 [5]).

However, these last two Regulations could not enter into force in 1978, because the Council had not adopted further Regulations fixing the maximum amount of aid to be made available for multiannual programmes. The Commission has also proposed to the Council the adoption of programmes covering prospecting for hydrocarbons (proposal of November 1974), aids for coal stocks (proposal of April 1977) and use of coal in power stations (proposal of December 1976), but the Council has not yet issued Regulations approving these proposed programmes.

6.9. There are important differences between the terms of these Regulations concerning the approval of specific projects within the programmes. Under Regulation (EEC) No 3056/73 each project has to be

(1) COM(76) 171 final.

(2) OJ No L 312, 13. 11. 1973, p. 1.
(3) OJ No L 221, 14. 8. 1976, p. 17.
(4) OJ No L 158, 16. 6. 1978, p. 6.
(5) OJ No L 158, 16. 6. 1978, p. 3.

approved by the Council acting unanimously on a proposal from the Commission, whereas, under Regulation (Euratom) No 2014/76 the Commission is empowered to select the individual projects. Regulations (EEC) No 1303/78 and (EEC) No 1302/78 present a third variation. Here, the Commission selects the projects for support after consulting advisory committees composed of representatives of the Member States. The Commission's decisions must be communicated to the Council and to the Member States and, at the request of a Member State the Council must rule on the Commission's decisions, acting unanimously in the case of the first set of projects to come forward under these programmes and by a qualified majority thereafter.

Budget provisions — 1978

6.10. Chapter 32 of the 1978 budget provided, for the financing of these action programmes, commitment appropriations amounting to 65 MEUA and payment appropriations amounting to 41·3 MEUA. A further 15 MEUA of commitment appropriations and 5 MEUA of payment appropriations, originally entered as provisional appropriations under Chapter 100 of the budget, were transferred in December 1978 to Chapter 32 with the approval of the European Parliament. In addition commitment appropriations totalling 54 MEUA and payment appropriations totalling 29·3 MEUA were brought forward from 1977 and were available in 1978. Tables 42 and 43 at the end of this chapter show the budgetary position in 1978 in detail and record the outturn for the year.

Budget outturn — 1978

6.11. The significant features of the outturn of Chapter 32 of the 1978 budget are:

— Programmes for which legal bases existed in 1978 (budget references 3200 and 321).

  Out of a total of 69 MEUA commitment appropriations available in the year a total of 43 MEUA was committed (utilization rate 62 %). For payment appropriations, expenditure in the year amounted to only 18·6 MEUA compared with available appropriations totalling 55·6 MEUA (utilization rate 33 %).

— Programmes for which no legal basis existed for implementation during 1978 (budget references 3201, 322, 323, 3240, 3241 and 3242).

  None of the 65 MEUA of commitment appropriations and the 20 MEUA of payment appropriations available in 1978 were used in the year.

Reasons for under-utilization of appropriations

6.12. Programmes with legal basis in 1978

Technological developments in the hydrocarbons sector (budget reference 3200).

The main reason for the low rate of utilization of appropriations provided for this programme (59 % of total commitment appropriations but only 26 % of 1978 commitment appropriations; 34 % of total payment appropriations but none of the 30 MEUA of payment appropriations provided in the 1978 budget) is the extremely lengthy procedure involved in the Commission's present arrangements for concluding contracts. In both 1977 and 1978 invitations, with an expiry date of the end of February, were published requesting interested firms and institutions to submit proposals, but it was not until the following October that Council decisions on the proposals to be accepted (required under the Regulations) were announced. Even then, according to the Commission's estimate, a further five months were required for the final negotiation and signature of the relevant contracts. These delays mean that programmes budgeted for in the year cannot be concluded in the year and the related appropriations cannot be utilized. On the other hand, the managers of these programmes must be aware in advance of the probable delay in concluding contracts and should take them into account in framing their budget proposals.

Another factor which has contributed to the low rate of utilization of appropriations provided for this programme in 1978 is the effect of appropriations brought forward from 1977.

Uranium prospecting (budget reference 321).

The commitment appropriations granted for this programme in 1978 were fully used. This probably reflects that the Commission selects the projects for support without recourse to the Council, and thus can avoid lengthy delays in project approval. On the other hand, utilization of payment appropriations was less satisfactory at only 31 % of the total available appropriations.

Reply of the Commission to paragraph 6.12

Item 3200

To improve the situation in future, the Commission has set at 30 November 1979 the deadline for the

submission of support applications for the financial year 1980. This will enable the Council to adopt its decision in good time so that the support contracts can be signed before the closure of accounts for the budgetary year in question.

Nevertheless, in drawing up its request for budgetary appropriations, the Commission will continue to do its utmost, in the light of experience, to make adequate allowance for the time necessary to negotiate contracts.

Item 321

The weak utilization rate of the appropriations for payment is explained by financial provisions provided for in the contracts: an initial advance deposit takes place upon the signing of the contract; for future payments, the Commission is dependent upon the transmission of the work-in-progress report by the contractor. The procedure used to select the projects requires approximately five months (approximately three months for the tender so that the companies may prepare their petitions, and two months for the technical examination by the Commission departments and by a group of geological experts, and for the decision of the Commission).

6.13. Programmes without legal basis in 1978

The explanation for the failure to use any of the commitment or payment appropriations entered in the 1978 budget is the same for all six of these programmes. As there were no definitive Council Regulations there was no legal basis for commitments or expenditure on these programmes in 1978. In this context, the Court notes the transfer of appropriations from Chapter 100 (provisional appropriations) to Chapter 32 (expenditure under the energy policy) when no legal basis existed for the programme concerned, prospecting for hydrocarbons (3201), in 1978. According to the Commission's document proposing this transfer [1], the main reason was to make sure that the appropriations entered in Chapter 100 in 1978 could be carried forward to 1979.

Conclusions

6.14. The Court draws attention to this further evidence of delay in implementing action programmes and of failure to make use of funds provided in the budget. The Court understands the difficulties facing the Commission in the absence of the necessary approvals from the Council but points out that, even when these approvals have been granted, the Commission's implementation of programmes has not been as rapid as it might have been. The Court is not convinced that the very lengthy delays inherent in the present procedure are unavoidable and recommends that this aspect should be given serious study.

Reply of the Commission to paragraph 6.14

As experience is gained, the Commission services have been able, year by year, to shorten the time required for negotiating contracts. For the managers of the projects, agreed by the Council, the Commission sets relatively short deadlines to present their operating programmes.

These deadlines are met by most recipients. However, the Commission is aware that it is not always possible to observe strict deadlines, and that an inflexible rule would prevent a certain number of complex contracts of advantage to Community energy policy form being concluded.

However, the Commission will examine with the greatest care the possibilities to accelerate the procedure.

6.15. The Court has made some general comments on budget discipline in paragraphs 1.5 to 1.7 of Chapter 1. In this context, Chapter 32 of the 1978 budget is deficient in several respects:

— it was not an accurate assessment of the probable level of expenditure in the year,

— it was not based on the latest available information, as the 1978 budget took no account of the outturn of the 1977 budget and the availability of appropriations carried forward therefrom,

— it granted appropriations to programmes for which there was no legal basis in the year.

As a consequence of these deficiencies, Chapter 32 of the 1978 budget could play no worthwhile role as an instrument of financial control, tied up scarce resources which could have been used for worthwhile programmes in other areas, and could not be regarded as an instrument of control over the implementation of policies.

[1] COM(78) 629.

CHAPTER 33 — RESEARCH AND INVESTMENT

(JOINT RESEARCH CENTRE (JRC))

Services performed by the JRC on behalf of outside bodies and individuals on request and against payment

Introduction

6.16. The Treaties and legislation by the Council give the JRC the task of carrying out research programmes decided on by the various Community authorities. The Commission can also give it secondary tasks including doing work and providing services for outside bodies against payment. The activities of the JRC can therefore be of two kinds:

— work carried out solely as part of the multiannual programme laid down by the Council,

— work undertaken by means of contracts concluded with outside bodies and not always connected with the multiannual research programme.

There are two types of contract for work carried out for outside bodies:

(i) Collaboration contracts

These deal with work connected with the multiannual research programme. They are intended to avoid duplication when a research organization in a Member State is to carry out work similar to that provided for in the multiannual programme of the JRC. In such a case the party concerned and the JRC may make an agreement providing for sharing out the tasks and providing for an exchange of findings. From the financial point of view these contracts do not involve the JRC in serious additional expenditure.

(ii) Contracts for research or the rendering of services

These contracts are not usually related to the multiannual programme. The outside body turns to the JRC on account of its specific knowledge or of the equipment it has available in a particular field. The outside bodies have to bear the actual cost of materials used and personnel employed. However, if the work is connected with the multiannual programme its financing is not fully funded by the outside body. In fact it is considered normal for the Commission to bear a percentage of the actual cost of research since it contributes in part to some of the objectives of the JRC research programme. The general budget thus covers that part of the actual cost which is not charged to the contracting party. This is a reduction that the JRC grants to outside bodies.

Comments of the Court

6.17. In the course of its audit of work carried out by the JRC for outside bodies, the Court examined the current procedures for budgetary and management control. It noted several gaps which it feels obliged to point out here:

Budgetary control — 1978 budget

6.18. In the 1978 budget Item 3331 'services performed by the JRC on behalf of outside bodies and individuals on request and against payment' provides for expenditure of 0·717 MEUA. In fact the final appropriations under this item in the revenue and expenditure account amount to 10·281 MEUA, i.e. about 14 times the budgetary figure [1].

This considerable excess over the budget estimates is made possible by the provisions of Article 90 (4) of the Financial Regulation of 21 December 1977, whose interpretation by the Commission in this respect has followed the letter rather than the spirit. This Article provides, by way of exception, that in the case of work for outside bodies the amounts earmarked in the financial plans (thus in the budget) may be increased by as much as the new receipts which are intended to cover them. On the basis of these provisions of the Financial Regulation, the Commission does not seem to have thought it necessary to include in its budget all the amounts representing current contracts for work for outside bodies. Yet, since the period of most of the contracts spreads over several financial years, there does not seem to be any practical obstacle to entering them in the budget. The present practice does not give the budgetary authority a full appreciation of the real extent of work for outside bodies and of its possible effect on the expected progress of the JRC's multiannual research programme.

Reply of the Commission to paragraph 6.18

The Commission is able to accept the general tenor of the comments about more systematic entry in the annual budget of all revenue and expenditure relating to work for outside bodies. Although, with regard to the making available of amounts which result from extra revenue accruing from outside bodies, the Financial Regulation authorizes expenditure not contained in the budget to be increased, the Commission will see that the

[1] See Table 44.
The Court is pleased to note the transfer to Chapter 33 for the financial year 1979 of expenditure relating to services provided to outside bodies appearing in 1978 under Chapters 34 and 39 (1 204 MEUA).

budgetary forecasts correspond as closely as possible to the real situation, if that can in fact be foreseen.

Revenue and expenditure account

6.19. In 1978 the fundamental principle of the annuality of the budget was not complied with work for outside bodies. To take one example: the Blow-down contract [1] is entered at 5·082 MEUA which represents the total to be received by the JRC over the period 1978 to 1981: it should have been entered only at the amount for the year concerned (1·616 MEUA). Most other contracts covering several years have been treated in the same way. There is a danger that this practice may lead to premature commitments for expenditure and may cause false conclusions about the utilization of appropriations to be drawn from the revenue and expenditure account.

Reply of the Commission to paragraph 6.19

Contracts concerning outside bodies are concluded and payments made during the financial year. If the Commission, with regard to the commitments entered into under the Blow-down contract, had taken into account only that part which corresponds to the present financial year, the revenue and expenditure account would not fully reflect the legal and financial obligations of the JRC.

This practice is consistent with the Financial Regulation (Article 90 (4)) which makes exception for extra revenue accruing from outside bodies from the standard procedure, since such revenue does not arise from the Community's own resources.

Management control

Charges for work for outside bodies

6.20. General guidance on accounting principles and systems is given by the Euratom Treaty, in the Financial Regulation and in the general budget and the internal regulations applying to it. This guidance needs to be supplemented by detailed rules. Up to now the accounting principles adopted by the JRC for work for outside bodies have not been precise enough to make possible the establishment of an internal control system which would give full and accurate information on the financial position of contracts. For instance, there are no rules governing the charges for services provided for outside bodies. The lack of rules leads to differing practices. Each establishment is left to define and set up, in a very pragmatic way, the arrangements for charging. Within the same establishment we have observed that, in practice, each scientific service decides according to its own ideas what to charge for its work. This state of affairs makes it particularly difficult to check the charge and the reductions granted.

Reply of the Commission to paragraph 6.20

The Commission is aware of certain gaps concerning, in particular, the rules for charging for work for outside bodies and will try to remedy this situation.

Estimates of the cost of work for outside bodies

6.21. The finance staff have no realistic estimate of the expenditure which will be incurred under a contract. In the absence of precise rules the scientific divisions send the following to the financial branch so that a contract may be drafted: a technical annex giving details of the work provided for (this is the annex to the contract), a timetable for completion of the work (also annexed to the contract), an explanatory note on the nature of the work envisaged (internal note) and a financial memorandum which should enable the charge to be fixed. (To the Court's knowledge this memorandum is used only at Ispra). In actual fact the financial memorandum gives an indication of the charge to be made but not of the cost, whereas the normal procedure requires an estimate of the cost to justify the amount charged. Therefore, the difference between cost and price, which remains charged to the budget, never appears clearly. This practice prevents the financial staff reconciling the technical annex and the financial memorandum in order to satisfy themselves about the estimates, to check the reductions granted to the contracting party and to make use of financial data in order to operate an overall surveillance of the execution of contracts.

Reply of the Commission to paragraph 6.21

Even if it is not always apparent from the financial record sheet that a detailed estimate of the cost of a contract has been made, such an estimate is always carried out in every case.

Where the most important contracts, such as Essor or Blow-down, are concerned, the files contain a detailed estimate of each element of the costs for the work.

The services provided by the support departments (e.g., workshop, Computer Centre) are expressed in units of work, the cost of which is calculated on the basis of the total cost of the department divided by the number of units of work which it is capable of providing.

[1] This contract is by far the largest of the tasks undertaken by the JRC for outside bodies (see Table 44).

The Commission realizes, however, that contracts relating to the provision of scientific services — even though individually they may be insignificant — should, in principle, contain more details with regard to the real cost of the services, so that the real cost and the charge to the contracting party may be compared and controlled more fully. The Commission will look into the feasibility of introducing such a system.

Assessment of the cost of work for outside bodies

6.22. The entries for work for outside bodies in the revenue and expenditure account cover only the amounts charged to contracting parties; in no case does the JRC attempt to record the full actual cost of all such work carried out. Any items of cost not included in the amount to be charged are ascribed to research objectives and never appear in the accounts of work for outside bodies. In practice the items omitted in this way are: personnel costs, expenditure on administrative infrastructure, expenditure on technical infrastructure and the use of capital assets. The checks carried out by the Court show that not all contracts of the same kind cover the same types of cost. In some cases no account is taken of personnel costs, which represent about 60 % of total expenditure on direct action; this might have a considerable effect on contracts for work undertaken for outside bodies. Bringing to account a charge instead of a cost makes it impossible to assess the size of the reductions granted or to establish the total actual cost of the activity concerned. This constitutes a serious obstacle to the effective working of the internal control.

Conclusions

Budgetary control

6.23. The Court is of the opinion that expenditure undertaken on work carried out for outside bodies should remain under the control of the budgetary authority since the resources of the JRC are being employed outside its normal activity. At present part of this activity escapes the notice of the budgetary authority; moreover, in order that it may assess the real extent of the JRC's activity in this field, the Court recommends that, wherever possible, a systematic attempt should be made to enter work for outside bodies in the budget. The Court also considers that such entries should always take account of the budgetary principle of annuality.

Management control

6.24. The present weaknesses in the management control of work for outside bodies (most particularly in fixing charges and in assessing estimated costs and actual costs) cast a serious doubt, in the view of the Court, on the supervision of these activities by the Directorate-General of the Joint Research Centre. Supervision is all the more important in that the assessment of costs borne by the JRC in work for outside bodies has a direct effect on the appraisal of Commission receipts (any underassessment of the cost of work for outside bodies may constitute a loss of receipts by the Commission). The Court considers also that in this field there should be set up as soon as possible a management system which would enable the Community to exercise real authority over this activity.

6.25. It is essential that the system of management control should include accurate recording of the cost of work done for outside bodies. This would make it possible to have a better grasp of the actual use of staff and other resources necessary for Community research and also to have a better appreciation of the way in which the staff and other resources are employed in carrying out the multiannual research programme.

6.26. After it had carried out its examination the Court informed the Commission of its conclusions; it was interested to learn of certain intentions on the part of the Commission regarding the strengthening of internal control, and particularly of its intention to improve procedures concerning budgetary transparency, recording of costs and following up the carrying out of contracts for work for outside bodies. From this point of view the Court recommends that the Joint Research Centre should adopt procedures capable of attaining the following objectives:

— to identify accurately all operations of work for outside bodies in order to distinguish them clearly from operations related to the objectives of the multiannual research programme,

— to monitor individually the financial position of each contract,

— to compare forecast with actual achievement in order to ensure satisfactory progress of the work,

— to verify all receipts which the Commission has the right to expect, in particular by analysing charges and reductions granted.

Inventories and stock accounts

Inventories

6.27. Article 59 of the Financial Regulation of 21 December 1977 [1] provides that permanent quantitative inventories shall be kept of all movable and immovable property belonging to the Communities. For

[1] OJ No L 356, 21. 12. 1977, p. 1.

movable property, Article 72 of the Regulation of 30 June 1975 (1) concerning the implementation of the Financial Regulation of 25 April 1973 provides that only items with an original value of not less than 30 EUA (100 EUA for property of a scientific nature), with a normal life exceeding one year (two years for property of a scientific nature) and which are not consumable, shall be entered into inventories. The Financial Regulation further requires that each institution shall carry out its own inspections to ascertain that entries in inventories correspond to the facts (Article 59); but it does not define the frequency or extent of such inspections.

6.28. Examination, concentrating on movable inventory items, was carried out by the Court at three of the JRC centres (Ispra, Petten and Geel) to ascertain whether these Regulations were being observed. At 31 December 1978, the number of items recorded in the movable property inventories at the three centres, and their values, were approximately as follows:

Centre	*No of items*	*Value in EUA*
Ispra	76 000	49 000 000
Petten	8 000	6 000 000
Geel	12 000	11 000 000

In general, the systems for entering items in inventories were found to be reasonably sound but enquiries revealed that in recent years (i.e. since at least the early 1970s) no inspections had been carried out at any of the three centres to ascertain whether the entries in the inventories corresponded to the facts, that is there had been no physical checks of inventory items.

6.29. In view of the clear intention of the Financial Regulation in this matter and the high value of the items concerned (over 60 MEUA) the Court considers that the failure to carry out physical checking of inventory items in recent years is a serious weakness in the administration of the JRC and one which should be remedied as soon as possible. The Court accepts that the large number of items in the movable property inventories presents the centres with a difficult task if physical checks are to be carried out with reasonable frequency but there are two measures, both with merit in their own right, which could assist in reducing the scale of the task:

— the fact that only about 3 000 items were added to the inventories of the three centres in 1978 compared with the total number of items recorded in the inventories at the end of 1978, about 96 000, suggests that these inventories may include many old items which are now surplus to requirements. A programme of review and disposal of redundant property could have a material impact on the size of the inventories, and

— a review, in the light of recent inflation of purchase prices, of the values laid down in the Regulations governing the entering of movable property items in inventories could establish more realistic levels and again have the effect of reducing the size of these inventories.

Reply of the Commission to paragraphs 6.27 to 6.29

The inventory of movable property, and the checking of that inventory, are not yet entirely satisfactory. The shortage of staff, the large number of articles in the inventory and the multitude of items to be entered each financial year have made it impossible for the JRC establishments to carry out inventory checks as it would have desired.

Certain JRC establishments have already started, and will continue, their review and disposal of redundant property, as suggested by the Court of Auditors, in order to remedy the situation which the Court has criticized.

As suggested by the Court, the Commission will study the possibility of raising the thresholds laid down in the Regulations at which items must be entered in the inventory and the introduction of a system of criteria governing the physical checks on movable property of a scientific or technical nature.

Stock accounts

6.30. Whereas inventory accounts relate to property of a more permanent nature, stock accounts generally are concerned with consumable items. The establishments of the JRC account for stocks by quantity only and do not maintain valued stock accounts. For this reason, the value of stocks held is not readily ascertainable. But, given the range of items and the size of the central stores, the value must be significant.

6.31. Examination of the stock accounting procedures at the three centres disclosed, at Ispra and Geel, that no procedure existed for full and regular stocktaking of stores and that no such stocktaking had been carried out in recent years; and, at Petten, that the stocktaking of the central stores in course during the week of the visit of the Court's officials was the first such exercise for several years.

6.32. The Court is of the opinion:

— that valued stock accounts would greatly assist management's financial control of stocks and that

(1) OJ No L 170, 1. 7. 1975, p. 1.

consideration should be given to their introduction at the earliest possible date, and

— that clear rules governing stocktaking should be laid down for the JRC centres and strictly applied.

Reply of the Commission to paragraphs 6.30 to 6.32

A stock valuation accounting procedure already exists at Karlsruhe, and similar procedures are being introduced at Geel and Petten.

In view of the large number of specialized stores called for by the varied activities at Ispra, the problem with the establishment is more complicated. This kind of accounting procedure requires the services of a considerable number of officials or the introduction of costly automated systems. The Commission will therefore study the problem and the possibility of achieving harmonization of the stocktaking rules and will notify the Court of the results.

Accounting for inventory and stock assets

6.33. Article 76 of the implementing measures Regulation (1) requires institutions to maintain *inter alia* fixed assets and stock accounts with the implication that these accounts should be part of the general accounts and their balances recorded in the annual balance sheet. At present, the JRC does not have such accounts and the values of fixed assets and stocks are not recorded in the balance sheet. The Court has made some general comments on the accounting for fixed assets and stocks in paragraph 8 of Chapter 11.

Reply of the Commission to paragraph 6.33

With regard to recording the values of immovable assets and stocks in the balance sheets, the Commission would refer to the reply it gave to the comments in paragraph 8 of Chapter 11 of the Court of Auditors' report.

Essor complex

Introduction

6.34. In Chapter 6 of its 1977 Report, the Court summarized the arrangements under which the Essor reactor at Ispra has, since 1973, been placed at the disposal of the Italian Government, noting particularly that the Italian Government pays for the operating expenses of the reactor and the cost of new investments, while the JRC is responsible for the management of the complex and the supervision of the new investment programme. The Court drew attention to certain unsatisfactory aspects of the investment programme concerning the proposed new circuits, IRA, Cabiria, Cleopatra and SARA; and noted the absence, at that time, of formal contractual arrangements between the Commission and the Italian Government for the period after December 1977.

6.35. A number of uncertainties which existed a year ago have now been resolved. In November 1978, a fresh contract was entered into with the Italian Government under which they agreed to continue to meet the operating expenses of Essor until the end of 1980. In August 1978, a final payment was made on the IRA circuit design and construction contract and the contract is now considered as completed although the circuit has not been built. At the end of 1978, decisions had been taken not to proceed with the construction of the Cabiria and Cleopatra circuits and to terminate the contracts; and negotiations to this end were completed early in 1979. The cost of the abortive work on these three circuits, which as explained above has been met by the Italian Government, was:

	Lit	*Approximate equivalent in million EUA*
IRA	386 188 300	0·3
Cabiria	2 477 138 757	2·2
Cleopatra	2 090 764 853	1·8

Finally, the settlements of these contracts remove any risks of legal obligations reverting to the Commission as signatory of the contracts concerned.

SARA circuit

6.36. The sole surviving project of the new investment programme, the SARA circuit, still gives cause for some concern. The contract for the construction of this circuit has suffered severe disruption arising from uncertainties regarding its funding and doubts about its eventual completion. These uncertainties and doubts had not been resolved at the end of 1978. In May 1979, however, the Italian Government entered into an agreement with the Commission to finance the continuation of the SARA contract until the end of 1979. As a result of this agreement, revised terms have been negotiated with the contractor for the completion of this circuit and work on the project, which had been suspended, is now progressing.

(1) OJ No L 170, 1. 7. 1975, p. 1.

6.37. The cost of disruption to this contract is high. Under the terms of the original contract, negotiated in November 1976, the order of cost to complete the project was about 6·3 MEUA (subject to adjustment for inflation) with completion envisaged for about August 1980. Under the revised arrangements, agreed in May 1979, the order of cost has risen to about 9·5 MEUA (subject to adjustment for inflation) with completion not now due until November 1981.

The increase in cost is attributable, in part, to an up-grading of the specification of the circuit and, in part, to higher prices as the result of inflation in the intervening period, but it is also due in part to the contractors' extra costs caused by delays occasioned by the Commission acting on behalf of the Italian Government. A specific payment of £ 208 000 (about 0·3 MEUA) is to be made to the contractor on this account.

6.38. At the end of 1978 some 1·3 MEUA had been spent on the design and construction of this circuit and it is expected that a further 3·75 MEUA will be needed to finance the work to be undertaken up to the end of 1979. However, the completion of the SARA circuit — which is vital for Essor — is still not assured. The Italian Government has told the Commission that it will not finance the operation of the Essor reactor after the end of 1980 and has, so far, only agreed to fund the SARA contract until the end of 1979. However, in its proposal of March 1979 (1) for the multiannual programme of the JRC 1980 to 1983, the Commission has provided for the utilization of the Essor reactor, including the SARA circuit, for a joint reactor safety programme for the benefit of the Community. If this proposal is approved the Essor reactor and its staff of 222 will be financed from the beginning of 1981 from the budget of the European Communities.

6.39. It seems clear that the future of Essor and the completion of the SARA circuit are only guaranteed if the Council takes an affirmative decision on this proposal. But, according to the present schedule, the decision will not be taken until December 1979 at the earliest. In the meantime, the Italian Government will continue to pay for the operation of Essor and the construction of the SARA circuit. While understanding the problems of Essor, the Court finds it unfortunate, bearing in mind what happened with other Essor circuits, that substantial sums have to be spent on the construction of the SARA circuit in advance of any firm decision on the future of the Essor reactor.

Reply of the Commission to paragraphs 6.36 to 6.39

The difficulties arising in the preparation of contractual provisions between the Community and the Italian Government concerning the Essor complex and, more particularly, the construction of the SARA circuit have regrettably caused the construction of the circuit to be stopped. As no Community programme for building and using the circuit materialized, the Commission was obliged to suspend the building contract for such time as the Italian Government's financial contribution was not guaranteed.

As it has always done, the Commission will continue to make every effort to see that the Essor reactor, which is an important Community asset, is used as profitably as possible.

The Commission can only welcome the Court of Auditors' support for a rapid decision to be taken by the Council on the proposals already put forward by the Commission on this matter.

(1) COM(79) 121.

CHAPTER 33 — RESEARCH AND INVESTMENT

(INDIRECT ACTION)

Budget outturn — 1978

6.40. The rate of utilization of 1978 appropriations in the indirect action part of Chapter 33 was low. Out of a total of 191 MEUA of commitment appropriations available in 1978, only 66 MEUA was committed in the year (utilization rate 35 %). Payments during 1978 amounted to only 69 MEUA compared to total available payment appropriations of 153 MEUA (utilization rate 45 %). Table 40 at the end of this chapter shows that the rate of utilization of commitment appropriations was particularly low (only 16 %) for the 'Fusion and plasma physics' research programme (budget reference 3351), which includes the JET project. The decision to incorporate the JET project into this programme was not taken until 30 May 1978, and as a result, the greater part of the commitment appropriations brought forward from 1977 was not used in 1978. The rate of utilization of appropriations for indirect action, excluding Fusion, was 58 % for commitment appropriations, and 43 % for payment appropriations.

Reply of the Commission to paragraph 6.40

There are various reasons why the rate of utilization of certain appropriations has slowed down. These are:

(a) late adoption by the Council of certain programme proposals;

(b) such delay is increased by the lengthy recruitment procedure concerning scientific staff foreseen in the programme decisions and the time required to set up the Advisory Committees on Programme Management (ACPMs);

(c) moreover, the procedure for transferring appropriations from Chapter 100 to the relevant budgetary heading has proved particularly long;

(d) a further obstacle has been the difficulty of making the necessary choices and negotiating the contracts.

Cost-sharing research contracts

Introduction

6.41. The Euratom Treaty entrusts to the Council and the Commission the tasks of determining and carrying out the Community's research programme.

Article 7 provides that 'Community research and training programmes shall be determined by the Council, acting unanimously on a proposal from the Commission ...', in addition Article 6 provides that 'To encourage the carrying out of research programmes communicated to it the Commission may provide financial assistance within the framework of research contracts, without, however, offering subsidies ...'. For non-nuclear research Article 235 of the Treaty establishing the European Economic Community acts as the basis for decisions by the Council to determine multiannual research programmes. Research activity undertaken by means of contracts with outside bodies is known as 'indirect action' to distinguish it from work carried out by the Joint Research Centre, known as 'direct action'. At the end of the year 11 research programmes were being carried out.

6.42. The Commission mainly makes use of three types of research contract:

— cost-sharing research contracts in which it participates in the actual cost of a research project (total cost) within a maximum set for each project,

— association contracts. Such contracts have been entered into for only two research programmes: biology and thermonuclear fusion. Their purpose is to carry out research programmes jointly by means of long-term collaboration with national organizations of the Member States or other States concerned. A feature of these contracts is the establishment of *ad hoc* bodies for management and control,

— study contracts in the field of research under which the Commission entrusts an outside body with a study on a particular subject, most often in order to determine certain aspects of a research programme. The Commission bears the whole cost of the study.

6.43. The 1978 budget shows that about three quarters of the commitments for indirect action relate to nearly 1 000 research contracts. Among these, cost-sharing research contracts are preponderant; their importance will be even greater in the future for, at 31 December 1978, 10 or so new research programmes had been or were about to be decided on by the Council. It is probable that the Commission will carry out most of these new programmes by means of cost-sharing research contracts.

6.44. In order to carry out the research programmes the Commission requires a fairly considerable administrative infrastructure. The selection of research work, the choice of contracting parties, the preparation and conclusion of contracts and following up the execution of them demand rigorous control procedures, both scientific and financial.

Reply of the Commission to paragraph 6.44

The Commission would emphasize that it only has a very small staff to carry out the tasks mentioned by the Court.

6.45. Scientific control is carried out at different levels.

— Choice of research contracts.

The choice of contractors is left to the Commission which, since 18 July 1977, has had the benefit of the opinion of the Advisory Committees on Programme Management (ACPM). Other advisory committees aided the Commission with their opinions prior to that date.

— Execution of research work.

Scientific supervision of the execution of the research is done at two levels:

— at the level of individual contracts, interim and final reports are evaluated by project officers in the Directorate-General, Research, Science and Education,

— the execution of multiannual research programmes is submitted for the assessment of the ACPMs who may be asked to express an opinion. The advisory committees are made up of leading persons in the scientific world and meet about three times a year.

6.46. Administrative and financial control is essentially carried out by staff belonging to the Commission. The specialized contract service of the Directorate-General, Research, Science and Education receives statements of the contracting party's expenditure and examines them in the light of the financial Annex and certain other supporting documents. This examination is not generally based on original supporting documents; the specialized contract service is therefore obliged to visit the contracting party for an on-the-spot inspection. The Directorate-General, Financial Control, as for any other activity of the Commission, checks the documents supporting the expenditure; it also accompanies the specialized contract service on certain visits to contracting parties. On such occasions it produces a report separate from that of the Directorate-General, Research, Science and Education.

Reply of the Commission to paragraph 6.46

With regard to the absence in certain cases of the original vouchers, the Commission would emphasize that the large majority of contracting parties are public or parastate bodies. These are obliged, under national statutory and fiscal provisions, to keep the original vouchers at the disposal of their authorities. This is why the Commission requires these bodies to produce declarations of conformity with the said vouchers.

The Commission also carries out on-the-spot sample checks of the declarations.

6.47. Apart from the general political control exercised by the budgetary authority a special control, also political, has to be exercised by the Council. In the case of nuclear research Article 7 of the Euratom Treaty provides that 'The Commission shall ensure that these programmes are carried out and shall submit an annual report thereon to the Council'. In the case of non-nuclear research the decisions of the Council determining the research programmes provide for similar reports.

Observations of the Court of Auditors

6.48. The Court examined the following matters concerning cost-sharing research contracts: procedures for selecting research work, for the choice of contracting parties, for concluding contracts and for the control of their execution. Questions concerning the dissemination of knowledge have not been touched on because, although linked to research contracts, they concern a much wider field, the administration of which has been entrusted by the Commission to a special Directorate-General (DG XIII). The Court intends to devote particular attention to this field in the near future.

When the Court wished to satisfy itself of the results produced by the Commission's procedures for verifying the validity of the expenditure, it met certain difficulties which call in question the reliability of the internal control. In the opinion of the Court these difficulties have their origin:

— in the application of the principles governing the conclusion of contracts,

— in the administrative organization for monitoring expenditure,

— in the arrangements for verifying the statements of costs submitted by contracting parties.

Principles governing contracts

6.49. Certain fundamental principles laid down for contracts have not always been observed exactly. As a result of this there has been excessive 'flexibility' in the drafting of contracts which has made financial control of them difficult or illusory. This applies to the rate of Community participation in cost-sharing research contracts and to the arrangements for assessing costs in financial Annexes and the amount of advances to be paid to contracting parties.

Reply of the Commission to paragraphs 6.48 and 6.49

The Commission's reply to the Court's comments in these paragraphs is set out in detail in points 6.50, 6.51 and 6.52 below.

Rate of Community participation

6.50. It has been laid down as a principle that the rate of participation should — as a general rule with the possibility of deviation from the amount — be, on average, one half of the actual cost of the whole of the work carried out by the contracting party under the same contract. By this means the Commission considers that it ensures that the contracting party has a sufficient interest in the work to wish to bring it to a successful conclusion. Examination of the contracts being carried out in 1978 showed that, in practice, the rate of Community participation ranged from 15 to 80 % (if study contracts are excluded).

The rate of participation is an essential factor in determining the expenditure to be borne by the Community but the Court had not been able to obtain during its examination any indication of the reasons for the variations; it therefore addressed a written request to the Directorate-General, Research, Science and Education for the detailed rules fixing these rates of participation. The Commission gave the following reply: 'The percentages applied in the contracts vary according to the allocations recommended for the cost-sharing research contracts by the advisory committees concerned with managing the programmes. During the discussions of the ACPMs various factors are taken into account such as:

— how far the project is of interest,

— the degree of priority given to it,

— the possibility of Member States financing a part of the costs.'

The Court considers that these factors give general guidance but could not be regarded as equivalent to rules making it possible to decide with certainty on Community rates of participation in contracts.

Reply of the Commission to paragraph 6.50

The selection of the rate of participation is a general policy of consideration which varies according to the interest of the research for the Community and the contracting party. More specific rules could only hinder the sound execution of the research programmes. A certain amount of flexibility, therefore, is necessary in the field of research.

Nevertheless, the Commission is prepared to study criteria upon which more specific rules could be based, provided they did not interfere with the sound execution of its research programmes.

Assessment of costs

6.51. It is an accepted principle that cost-sharing research contracts are contracts for financial participation in the actual cost of a research activity. In order that the amount of the participation may be validly assessed it is necessary that the items of cost to be taken into account should be defined beforehand: this is required by the essentially contractual relationship between the parties.

The items of cost are laid down in the financial Annex to the contract. The contracting party has a choice between several types of Annex in which the basis for calculating costs is either very precise or is based on a cost per research-worker which, among other things, includes a share of depreciation for plant and equipment and a contribution *pro rata* to general expenses and the use of consumable goods.

In all cases the amount of the Community participation is subject to a maximum and the Commission reserves the right to adjust the amount of its contribution according to the actual costs borne by the contracting party. The need to establish the actual cost makes accounting checks difficult or impossible. Some kinds of expenditure are easily vouched and verifying them presents no major difficulty; other types such as personnel costs and overheads are, by their very nature, difficult to verify; in some cases it would be impossible to make a judgment about them without carrying out a complete audit of the accounts of the organization concerned. In order to undertake a check of the actual costs of research the Commission has been obliged to adopt different methods of recording and allocating expenditure according to the requirements of its partners. This variety of methods is intended as an adaptation to the characteristics of each contracting party; but it complicates the work of administrative follow-up and makes the work of accounting control difficult to carry out.

Reply of the Commission to paragraph 6.51

The Commission's practice of adapting its methods to the accounting system of each contracting party is based on the following reasoning:

(i) contracts are governed by national law. The Commission has to observe the legal provisions which impose certain accounting rules, and these vary from country to country;

(ii) cost-sharing research contracts are contracts of association, and it is unthinkable that one partner should be able to impose his own wishes on the other. It is impossible in this field to impose rigid clauses on the contracting party in view of the fact that the costs are shared and that the nature of the contract, i.e. research, is an uncertain undertaking;

(iii) on a practical level, it would be wrong to expect a contracting party to change his accounting procedure when the yield from contracts is only a small percentage of his turnover. Furthermore, every well-organized firm has a list of charges for services performed for outside bodies;

(iv) if the contract is not suited to the contracting party's accounting system, verification will prove still more difficult. The Commission discovered this to its cost at the start of the Energy Programme when it tried to impose a standard form of contract;

this proved unsuited to the administrative and financial structures of the other parties and several management problems arose as a result.

Advances paid to contracting parties

6.52. The general conditions of a cost-sharing research contract provide for the payment of advances in order that the contracting party should not have to pay bank interest by reason of the work he is doing for the Community. For calculating advances the Commission has adopted a rule which takes account of the amount of the Community contribution, of the security retention and of the number of periods of settlement of accounts. A sample taken by the Court covering 100 contracts shows that in 60 cases the advance made was greater than it should have been if the rules had been strictly obeyed. The excess was about 540 000 EUA. Quite apart from the liquidity advantage improperly conferred on the contracting parties, the practice shows once again a 'flexibility' with regard to large sums which contrasts strangely with the strict controls which are prescribed in the financial Annexes.

Reply of the Commission to paragraph 6.52

A further justification for advances is that the other parties do not have to arrange prior finance for the research. As a general rule, the Commission takes into account the size of the Community contribution and the length of the repayment periods.

Nevertheless, as expenditure cannot occur at a steady rate, particularly when the research requires a large initial investment, the Commission must show, when circumstances so dictate, a certain degree of flexibility in granting advances and determining their amount on a case-by-case basis. However, the Commission will examine the possibility of preparing more specific rules on this matter.

Administrative organization for following up expenditure

6.53. With the increase in indirect action research programmes the contract service of the Directorate-General, Research, Science and Education has found the volume of its work considerably expanded: for secretarial work, for liaison with the scientific divisions and for inspection visits to contracting parties. To meet its obligations the service is obliged to call on temporary non-specialist staff without the necessary accounting or secretarial qualifications. As has already been said, cost-sharing research contracts provide for the actual cost of the research to be shared between the parties according to a formula. In the great majority of cases payments by the Commission under the contract are based on statements of expenditure submitted by the contracting party, without there being any basic supporting documents. Before authorizing a payment the contract service carries out the following checks whatever the size of the contract:

— reconciliation of the documents received with the terms of the contract,

— arithmetical check of the statement of expenditure,

— checking that the scientific reports, which are a condition for the payment, have been received and approved by the scientific divisions.

As they are not supported by original vouchers these pre-payment checks, however much work is put into them, can never give an assurance that the settlements made really represent the contractual share of actual research expenditure to be borne by the Commission. Such an assurance could only be obtained by an on-the-spot examination of the books of the contracting party. In spite of the work involved it is not clear that checking of statements of expenditure gives the Commission any real guarantee of the contractual validity of the payments it makes; moreover, unless present procedures are changed, the situation can only get worse with the foreseeable increase in the number of contracts to be handled.

Reply of the Commission to paragraph 6.53

With regard to the absence of essential supporting documents, the Commission would refer to its answer to point 6.46.

As for the conditions in which the inspection is carried out, the Commission would repeat that it has to perform the task referred to by the Court with a very small staff. For practical reasons of administrative economy the Commission is constrained to use fact-finding means, as regards the guarantee that the payments made actually represent the contractual share of the research costs, other than those based on the systematic inspection of all the supporting documents relating to contractual expenditure. The declarations that the statements supplied by the contracting parties conform with the supporting documents greatly reduce the workload of the departments concerned.

The Court of Auditors' reservations about the nature of the inspection appear to be unfounded: the statements of account must, in fact, be certified by the contracting party as true and accurate and consistent with his accounts. There is therefore a formal commitment by the contracting party which is a contractual obligation.

The contract, of course, does not prevent the Commission from exercising its option to verify the expenditure concerned on the spot. Thus, certain supporting documents are inspected by the Commission in respect of items which may become controversial.

As the number of contracts to be concluded and administered seems likely to increase, the Commission is currently considering a whole series of changes designed to make the contractual arrangements more effective but — as the Court would wish — still limiting the resulting increase of administrative work and ensuring that the principles of sound financial management are observed.

Arrangements for checking the accuracy of statements

6.54. The logic of the present system requires that the Commission should carry out on-the-spot inspection visits to contracting parties in order to satisfy itself of the genuineness of expenditure and of the accuracy of the statements of costs sent to it. Such visits are the only means of going back to supporting vouchers and accounting books. An audit programme was drawn up for 1978 by the specialized contract service but, to the knowledge of the Court, no overall plan was approved at the beginning of the year by the Directorate-General, Research, Science and Education. An examination of the inspection reports drawn up after visits to contracting parties shows, moreover, that the internal auditors often have difficulty in expressing precise conclusions; this suggests that the difficulty lies in the absence of audit programmes and of notes giving guidance on the preparation of reports.

Reply of the Commission to paragraph 6.54

In view of the size of the contract service staff at present, it would not be realistic to set an overall inspection plan which could not be achieved in practice. As soon as the administrative infrastructure is adequate, an overall plan could again be introduced, as was the case in the past.

As regards the absence of an audit programme and notes giving guidance on the preparation of reports, the Commission would point out that since 1970 it has been using a detailed questionnaire for the verification of expenditure.

6.55. In practice the resources available to the Commission do not enable it to check a large enough number of contracts. In 1978 out of 1 000 current contracts only 36 were subjected to on-the-spot inspections (not counting association contracts). In these conditions, one can only have a limited faith in the procedure. Only four research programmes were covered by inspection visits to contracting parties; the total of the amounts concerned was about 4·3 million EUA — about 4 % of the total value of contracts current at the end of 1978. In the opinion of the Court the comparatively low rate of coverage would have less serious consequences if the majority of inspections had shown that the amounts paid by the Commission were justified and followed the terms of the contract. In fact the inspection reports of the Directorate-General, Research, Science and Education and those of the Directorate-General, Financial Control show that only rarely do inspections give satisfactory results. The difficulties which recur most often are as follows:

— the contracting party's accounting system is either non-existent or unsuitable for the contract,

— the absence of supporting documents for staff expenditure incurred under the contract,

— serious obstacles in the way of verifying overheads.

Reply of the Commission to paragraph 6.55

It is fair to say that the Commission does not have the resources which would enable it to check a large enough number of contracts on the spot.

At present, inspection is concentrated on those contracting parties whose accounting procedure seems questionable to the Commission.

Conclusions

Rate of Community participation

6.56. From the point of view of good financial management it is regrettable that the rules for determining the rate of Community participation have not been more closely defined. This lax attitude often applies to considerable sums and contrasts curiously with the excessive strictness of some details of the financial Annexes.

In the opinion of the Court such rules should form the principal basis of a true internal control and be so designed that the procedure is stricter as the rate of participation is higher. Any departure from the rules should require authorization at a higher level. Such a procedure would greatly help the external audit and, in addition, would enable those responsible for research and investment activities to identify the cases which require special attention when they give their approval for the conclusion of contracts.

Reply of the Commission to paragraph 6.56

The Commission's reply to point 6.50 applies here too.

Contractual validity of payments made by the Commission.

6.57. The present weaknesses of internal control in the administrative system for cost-sharing research contracts and, more particularly, in the procedure for verifying costs declared by the contracting parties have prevented the Court from satisfying itself that, in 1978, the expenditure recorded by the Commission corresponds strictly to the terms of the contracts it has concluded. In the opinion of the Court there is a danger that this situation will persist as long as the Commission attempts to enter into contracts for participation in the actual cost of research projects. In these circumstances it is even to be expected that the Directorate-General, Research, Science and Education, and the Directorate-General, Financial Control will meet increasing difficulty in establishing that payments made by the Commission conform strictly to the requirements of the contracts; the reason is the number of new programmes which have been determined by the Council and which will be carried out by means of contracts. Before an increase in the staff of the specialized contract service is considered it would be appropriate, in the opinion of the Court, to undertake a study to determine how far changes of procedure would enable internal control to be strengthened without a corresponding increase in the work-load. It is not clear that verifying actual expenditure on research is a requirement of the Treaties; on the other hand it is certain that applying this principle to all research contracts involves the Commission in a considerable amount of work without a correspondingly improved internal control.

Payment of advances

6.58. The Court has observed that the rules adopted by the Commission about the payment of advances to contracting parties have not always been observed and that large sums can be paid out to the detriment of the financial interests of the Communities. The Court considers that if departures from the general rule are necessary for the due functioning of research operations they should be subject to a special authorization procedure and should be properly justified.

Reply of the Commission to paragraph 6.58

The Commission's reply to point 6.52 applies here too.

Organization of on-the-spot inspection visits to contracting parties

6.59. The present procedure gives a primary role to on-the-spot audits. An examination of the reports by internal auditors shows that, in many cases, a first visit is needed to allow the Commission to explain to the contracting party what supporting accounting documents are necessary before the Community can accept expenditure. In such cases an effective audit of the accounts cannot take place except on a second visit. There is a danger that a procedure as cumbersome as this will become paralysing with the increase in the number of contracts. If the conclusions of the study which the Court recommends in paragraph 6.57 do not provide an acceptable solution to the problem of financial control of the implementation of the contracts, so that the present procedure must be maintained, the Court would find it a matter for regret if the audit reports were not drawn up in a more structured manner and if their conclusions were not expressed clearly and precisely. These reports would, in these circumstances, become an essential tool of both internal and external audit and an important source of information for the responsible scientific and financial authorities.

The maintenance of the present audit approach would thus require the establishment of rules governing on-the-spot audit of cost-sharing research contracts. The rules might lay down, among other things:

— the principles to follow in the choice of contracts to investigate,

— the objectives to be achieved when carrying out audits,

— the method of drawing up a report,

— responsibility for following up audit reports.

Reply of the Commission to paragraphs 6.57 and 6.59

The weaknesses of internal control should be attributed to a shortage of staff rather than the application, at the conclusion of the contracts, of the principle of Community participation in the actual cost. It is difficult to see why lump sums should be granted for research whose results are necessarily uncertain, without ensuring that the funds made available to the contracting party have in fact been spent on the stated purpose of the research.

As regards the suggestion that procedures should be altered so as to improve internal control without a corresponding increase in the workload, the Commission has engaged an outside firm to carry out a study on reorganizing the administrative departments of DG XII and, in particular, the internal and external control procedures on the basis of objective criteria and

in accordance with actual requirements. The Commission would also point out that its departments — in the work currently being undertaken with a view to devising a training programme for Community inspectors — will take account of the Court of Auditors' suggestions for making internal control more effective in this field.

Remarks of the Court on the Reply of the Commission to paragraphs 6.46, 6.51, 6.53, 6.54, 6.55, 6.57, 6.59

These paragraphs in the Court's observations had regard *inter alia* to the fact that some of the contractors concerned do not have accurate and comprehensive cost recording systems. This omission could result in errors in the statements of expenses submitted to the Commission. In these cases declarations given by the contractors that the statements conform with the supporting documents can only be of limited value.

JOINT EUROPEAN TORUS (JET) — JOINT UNDERTAKING

6.60. On 1 June 1978, a joint undertaking was established to carry out the JET project. In accordance with Article 12 of the statutes of this joint undertaking the financial statements for 1978 were submitted for audit to the Court of Auditors at the beginning of March 1979. These financial statements showed that expenditure by JET in the year amounted to 11·85 MEUA, 80 % of which was financed by the Commission. The report of the Court of Auditors was sent to the director of the project, to the members of the joint undertaking, to the Council of the European Communities and to the European Parliament. This report states that, 'The Court has been unable to satisfy itself that the financial statements present a true and fair view of the financial affairs of the joint undertaking at 31 December 1978'. As provided for in Article 24 of the Financial Regulations of JET, the director of the project presented the financial statements for 1978, together with the report of the Court of Auditors to the JET Council on 17 May 1979. The JET Council decided not to give a discharge to the director of the project, and asked him to present new accounts.

The Court of Auditors has examined these revised accounts and was able to issue a satisfactory opinion on them. On 18 and 19 October 1979 the JET Council, having regard to the opinion of the Court of Auditors, discharged the director of the project in respect of the budget for 1978.

Table 40. Energy, research and investment: utilization of commitment appropriations in 1978

(MEUA)

	Budget reference	Commitment appropriations				Committed in 1978	Carried forward to 1979	Percentage utilization of total appropriations
		1978 budget	Transfers	Brought forward from 1977 (2)	Total			
Energy	32	80 (1)	—	54	134	43	66	32 %
Direct action	330-3	113	2	9	124	105	16	84 %
Work for outside bodies	3331	1	7	2	10	5	5	50 %
Sub-total: JRC	330-3	114	9	11	134	110	21	82 %
Indirect—fusion	3351 (3)	15 (4)	—	91	106	17	89	16 %
Indirect—other	335-8	50	1	34	85	49	35	58 %
Sub-total: indirect action	335-8	65	1	125	191	66	124	35 %
Sub-total: research and investment	33	179 (4)	10	136	325	176	145	54 %
Total: energy, research and investment	32 + 33	259	10	190	459	219	211	48 %

(1) Includes provisional appropriations initially entered in Chapter 100, and transferred during 1978 (15 MEUA).
(2) Includes appropriations available from cancellation of unpaid commitments brought forward at 1 January 1978.
(3) Includes JET project.
(4) Includes provisional appropriations initially entered in Chapter 100, and transferred during 1978 (9 MEUA).

Table 41. Energy, research and investment: utilization of payment appropriations in 1978

(MEUA)

	Budget reference	Payment appropriations				Paid in 1978	Carried forward to 1979	Percentage utilization of total appropriations
		1978 budget	Transfers	Brought forward from 1977	Total			
Energy	32	46 (1)	—	30	76	19	46	25 %
Direct action	330-3	112	3	22	137	99	37	72 %
Work for outside bodies	3331	1	7	1	9	5	4	56 %
Sub-total: JRC	330-3	113	10	23	146	104	41	71 %
Indirect—fusion	3351 (2)	41 (3)	—	31	72	34	23	47 %
Indirect—other	335-8	55	1	25	81	35	37	43 %
Sub-total: indirect action	335-8	96	1	56	153	69	60	45 %
Sub-total: research and investment	33	209 (3)	11 (4)	79 (4)	299	173	101	58 %
Total: energy, research and investment	32 + 33	255	11	109	375	192	147	51 %

(1) Includes provisional appropriations initially entered in Chapter 100, and transferred during 1978 (5 MEUA).
(2) Includes JET project.
(3) Includes provisional appropriations initially entered in Chapter 100 and transferred during 1978 (15 MEUA).
(4) An amount of 5 MEUA, which was transferred in 1978 from payment appropriations brought forward from 1977 to the current year's payment appropriations, is not included in these amounts.

Table 42. Energy action programmes: utilization of commitment appropriations in 1978

(MEUA)

	Budget reference	Programme	Commitment appropriations			Committed in 1978	Percentage utilization	
			1978 budget	Brought forward from 1977 (4)	Total		Of total appro-priations	Of 1978 appro-priations (3)
Programmes with legal basis in 1978	3200	Hydrocarbons—technical development projects	35	28	63	37	59 %	26 %
	321	Uranium—prospecting for deposits	5	1	6	6	100 %	100 %
Sub-total			40	29	69	43	62 %	35 %
Programmes without legal basis in 1978	3201	Hydrocarbons—projects in prospecting	15 (1)	25	40	0	0 %	0 %
	322	Aids for coal stocks	t.e. (2)	—	t.e. (2)	—	0 %	0 %
	323	Use of coal in power stations	10	—	10	0	0 %	0 %
	3240	Energy-saving programme	4	—	4	0	0 %	0 %
	3241	Coal gasification and liquifaction	6	—	6	0	0 %	0 %
	3242	Exploitation of geothermal resources	5	—	5	0	0 %	0 %
Sub-total			40	25	65	0	0 %	0 %
Grand total	32		80	54	134	43	32 %	17 %

(1) Appropriations transferred from Chapter 100 (provisional appropriations).
(2) t.e. = token entry.
(3) Commitments made in 1978, less appropriations brought forward from 1977 and utilized in 1978, as a percentage of appropriations in the 1978 budget.
(4) Includes appropriations available from cancellation of unpaid commitments brought forward at 1 January 1978.

Table 43. Energy action programmes: utilization of payment appropriations in 1978

(MEUA)

	Budget reference	Programme	Payment appropriations			Paid in 1978	Percentage utilization	
			1978 budget	Brought forward from 1977	Total		Of total appro-priations	Of 1978 appro-priations (3)
Programmes with legal basis in 1978	3200	Hydrocarbons—technical development projects	30	18·1	48·1	16·3	34 %	0 %
	321	Uranium—prospecting for deposits	5·3	2·2	7·5	2·3	31 %	2 %
Sub-total			35·3	20·3	55·6	18·6	33 %	0 %
Programmes without legal basis in 1978	3201	Hydrocarbons—projects in prospecting	5 (1)	9	14	0	0 %	0 %
	322	Aids for coal stocks	t.e. (2)	—	t.e. (2)	—	—	—
	323	Use of coal in power stations	t.e. (2)	—	t.e. (2)	—	—	—
	3240	Energy-saving programme	2	—	2	0	0 %	0 %
	3241	Coal gasification and liquifaction	2	—	2	0	0 %	0 %
	3242	Exploitation of geothermal resources	2	—	2	0	0 %	0 %
Sub-total	32		11	9	20	0	0 %	0 %
Grand total			46·3	29·3	75·6	18·6	25 %	0 %

(1) Appropriations transferred from Chapter 100 (provisional appropriations).
(2) t.e. = token entry.
(3) Payments made in 1978, less appropriations brought forward from 1977 and utilized in 1978 as a percentage of appropriations in the 1978 budget.

Table 44. Entries in the 1978 revenue and expenditure account of commitment appropriations for work for outside bodies

(*Source:* Revenue and expenditure account at 31 December 1978)

(1 000 EUA)

Account number of allocation	Purpose of work	Final appropriations shown in the revenue and expenditure account at 31 December 1978	Expenditure shown in Chapter 33 — research and investment — of the general budget	Expenditure shown in another chapter of the general budget	Details not shown in the budget
1.91.1	Biology	310	310	—	—
1.92.0	Evaluation techniques in support of the Commission	1 301	—	1 093 (1)	208
1.92.1	Safety control	111	—	111 (2)	—
1.93.1	Blow down	5 082	—	—	5 082
1.93.9	Radio-protection	1 802		—	1 802
1.93.2 to 1.93.8	Other contracts	447		—	447
1.94.0	Services of computer centre	440	665 (3)	—	(225)
1.94.1 to 1.94.3	Sundry services	76	24 (3)	—	52
1.97.0 to 1.97.3	Data processing	129	28 (3)	—	101
1.97.4 to 1.97.9	Physics and chemistry	583	—	—	583
	Total	10 281	1 027	1 204	8 050

(1) This appropriation appears in Article 394 of the 1978 general budget. It covers work in the sectors of energy, raw materials and resources, environment and data processing. The work is carried out mainly for the Directorate-General, Research, Science and Education.
(2) This appropriation appears in Article 343 of the 1978 general budget of the European Communities.
(3) All these amounts appear in the 1978 budget under Item 3331 with a total of 0·717 million EUA. The corresponding receipts are entered under Article 923 of the revenue account.

CHAPTER 7 — COOPERATION WITH DEVELOPING COUNTRIES AND NON-MEMBER STATES (TITLE 9 OF THE BUDGET)

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INTRODUCTION

7.1. In 1978 appropriations for payment entered under Title 9 of the budget 'Cooperation with developing countries and non-member States' and payments out of these appropriations amounted to:

Table 45. Appropriations and payments under Title 9 of the budget

(EUA)

	Appropriations	Payments
Food aid	355 590 020	235 979 780
Financial and technical cooperation with non-associated developing countries	89 333 604	10 914 543
Specific cooperation projects with developing countries	18 588 550	13 851 675
Special disaster aid to non-member countries	3 161 640	3 160 101
Cooperation with non-member countries (Portugal — Mediterranean countries — Maghreb and Mashrek countries)	99 610 630	1 300 943
Total	566 284 444	265 207 042

7.2. Title 9 of the budget, however, by no means includes all the expenditure of the Commission in respect of cooperation with developing countries. An overall picture must also take into account:

— payments under the European Development Funds, which remain outside the framework of the budget (394 550 524 EUA). This expenditure is broken down and examined in the EDF section of the report,

— export refunds on food aid charged to the EAGGF, Guarantee Section (248 291 825 EUA),

— advances made to Member States for the execution of food-aid programmes which have not yet been charged to the budget at the close of the year (32 948 957 EUA).

7.3. Thus in 1978 the total financial contributions (in terms of payments) of the Community to developing and non-member countries amounted to some 941 million EUA.

FOOD AID

7.4. In its 1978 audit, the Court of Auditors for the first time extended its audit activity to the beneficiary countries and to an international organization.

Audits in the departments of the Commission

The audits carried out in the departments of the Commission lead the Court of Auditors to reiterate the principal comments and criticisms of its previous report in respect of:

— complexity of administration,

— execution of budget appropriations,

— delays in planning and executing aid programmes,

— deficiencies in procedures for mobilizing aid,

— mishaps affecting transport of aid,

— insufficient checks on execution of aid projects and use of proceeds of sale.

Reply of the Commission to paragraph 7.4

The Commission is of the opinion that considerable improvement in the management of food aid took place in 1978 particularly in catching up on backlogs and in more active supervision of the use of the aid delivered.

The Commission recognizes that there is need for improvement and is taking the following steps to ensure more efficient implementation:

— *proposal for new management procedures (COM(79) 1 final),*

— *revision of the Regulations for the mobilization of products,*

— *modification of the rules for transporting food aid,*

— *introduction of more direct quality control.*

Improvements will of necessity be gradual because the Commission must continue to give priority to the execution of the annual programme and the aid already granted.

Complexity of administration

7.5. Implementation of the various forms of food aid and its financing involves numerous departments of the Commission.

7.6. Apart from matters that fall within the normal duties of Directorate-General XIX (Budgets) and Directorate-General XX (Financial Control), administration of the food aid is the responsibility of Directorate-General VIII (Development). The competence of the latter is, however, restricted to the first (preparing programmes and concluding agreements) and last (management and supervision of implementation) stages of projects, while the intermediate stage is the responsibility of Directorate-General VI (Agriculture). Within the latter, responsibility is divided between several divisions according to the foodstuffs concerned (cereals or milk products) or according to the stage of implementation (tenders, financial management of agreements).

7.7. Furthermore, it should be noted that the Commission has named the Director-General of DG VI (Agriculture) acting authorizing officer for commitments for expenditure, direct payments (advances paid to the intervention agencies), and charging up of payments, for food aid (Chapter 92 of the budget). It has, however, designated the Director-General of DG VIII (Development) as acting authorizing officer for recovery of sums due from beneficiary countries or agencies.

7.8. The Court of Auditors considers that this diffusion of powers is by its nature prejudicial to the administration of the aid programmes and of their finances.

Reply of the Commission to paragraphs 7.5 to 7.8

The complexity of the management of food aid, which depends on both the Community's development policy and the supply of products within the framework of the Community's agricultural policy, will inevitably closely involve both the Directorate-General for Agriculture and the Directorate-General for Development regardless of the division of responsibilities.

The present system has the advantage of using the existing mechanisms in the Community and Member States for the supply and financing of agricultural products as part of food aid.

The Commission nevertheless takes note of the Court's comments.

Budgetary management of appropriations

7.9. In 1978, the allocations entered under Titles 6 and 9 of the budget to finance Community food-aid programmes amounted to:

Table 46. Utilization of appropriations for food aid

		Appropriations for authorized commitments	Appropriations committed	Payments
Title 6: Refunds	Financial year 1978	242 313 929	242 313 929	242 313 929
	Carried over from 1977	5 977 900	5 977 900	5 977 896
	Total	248 291 829	248 291 829	248 291 825
Title 9: Food aid	Financial year 1978	223 220 000	222 940 952	122 870 385
	Carried over from 1977	132 370 020	132 370 020	113 109 395
	Total	355 590 020	355 310 972	235 979 780
	Grand total	603 881 849	603 602 801	484 271 605

7.10. Food aid expenditure in the form of export refunds is financed by the Guarantee Section of the EAGGF in accordance with the financial rules for the implementation of this fund.

7.11. The appropriations entered under Title 9 of the budget for food aid are committed as soon as the Council has adopted the various annual programmes. Nevertheless, there are often long delays between this commitment and implementation of the aid programmes. At their request, the Commission periodically grants advances — equal to the total expenditure — to the intervention agencies responsible for organizing the tenders, and enters these payments in the general accounts until they can be charged to their budgetary heading. In principle the institution should regularize the payment of these advances by entering them in the budgetary accounts as a charge in the two months following receipt of the statements of expenditure from the Member States. In practice, it would appear that neither the commitments nor the payments shown in the periodic statements of the implementation of the budget gives an exact picture of the position of the food aid operations since non-regularized advances are outside the budget.

Reply of the Commission to paragraph 7.11

The situation seems to have become easier to assess since the introduction of the procedure whereby commitments are made in annual programmes. Advances are paid to the intervention agencies in the Member States on the basis of their monthly estimates, after verification and approval by the Commission. The payments for 1978 used up 91 % of the sums advanced; however, in the light of the comments of the Court of Auditors, the Commission is examining how the details of advances made could also be shown in the commitment and payment statements.

7.12. As the tables below show, the allocations entered under the various items of Titles 6 and 9 of the budget have been radically altered.

Table 47. Changes in food aid appropriations under Title 6

(EUA)

Title 6		Initial budget	Final budget
Refunds			
6001 Cereals	1978 programme	46 900 000	22 570 593
6002 Cereals	Previous programmes	Token entry	26 014 363
6101 Rice	1978 programme	3 300 000	6 295 129
6102 Rice	Previous programmes	Token entry	3 009 821
6201 Milk products	1978 programme	192 550 000	17 950 145
6202 Milk products	Previous programmes	Token entry	165 351 020
6401 Sugar	1978 programme	1 500 000	1 122 858
6402 Sugar	Previous programmes	—	—
	Total	244 250 000	242 313 929

During the year, numerous transfers were made to budgetary items relating to the programmes of previous years, which had appeared solely as token entries in the budget. Thus the appropriations intended for the 1978 programmes were reduced to 47 938 725 EUA, i.e. on average 20 % of the original allocation, while 194 375 204 EUA were transferred to programmes prior to 1978. These transfers compensate for large deductions made from the same items during 1977.

7.13. Movements of the same kind occurred in respect of the items of Title 9.

Table 48. Changes in food aid appropriations under Title 9

(EUA)

Title 9		Initial budget	Final budget
9200 Cereals	Previous programmes	Token entry	9 021 857
9201 Cereals	1978 programme	88 800 000	79 778 143
9210 Milk products	Previous programmes	Token entry	33 834 000
9211 Skimmed-milk powder	1978 programme	76 050 000	53 860 000
9212 Butteroil	1978 programme	56 340 000	44 696 000
9220 Sugar	Previous programmes	—	—
9221 Sugar	1978 programmes	1 520 000	1 520 000
9240 Other expenditure		1 000 000	510 000
	Total	223 710 000	223 220 000

The appropriations for the 1978 programmes have been reduced by 42 855 857 EUA, i.e. approximately 20 %, in favour of the programmes of the previous years. Here again, the transfers made in 1978 are to compensate for movements in the accounts during the previous financial year.

Table 49. The movements of appropriations relating to food aid (Titles 6 and 9) in tabular form

(MEUA)

	Appropriations entered in the budget for the 1978 programmes	Transfers in favour of previous programmes	Appropriations finally available for the 1978 programmes
Title 6	242·3	194·4	47·9
Title 9	223·2	42·9	180·3

Reply of the Commission to paragraphs 7.12 and 7.13

The 1979 budget gave more precise estimates for expenditure on previous years' programmes in order to bring more clarity into the presentation of accounts and to respect the budgetary provisions.

7.14. The Court of Auditors observes that these compensatory transfers reflect the marked delays in the implementation of aid programmes and are contrary to the principle of the annual nature of the budget. The Court wishes also to stress that these erratic movements, already disclosed on previous occasions, render the budgetary provisions meaningless.

As far as food aid is concerned, the adoption of differentiated appropriations would provide a solution to the budgetary problems involved in extending food aid programmes over several years.

By applying the system of differentiated appropriations it should be possible in future to distinguish between commitment appropriations and payment appropriations. The commitment appropriations will form the upper limit of aid obligations and the part not committed at the end of the financial year will remain available for the following year. The payment of appropriations should cover actual expenditure resulting from the implementation of commitments during the financial year or previous financial years.

Reply of the Commission to paragraph 7.14

It is correct that delays in deliveries of food aid will have repercussions on financial management. The Commission has decided to tackle this problem by reducing delays and by introducing a separate budgetary line to deal with actions which are not executed within the normal time limits for payments. This appears for the first time in the 1979 budget.

The Commission notes the remarks of the Court of Auditors on differentiated appropriations, and will review this question in the light of its experience with the new budgetary line.

7.15. Under the terms of Regulation (EEC) No 1703/72 [1], which lays down the rules for Community financing of food aid expenditure, the Commission must close the accounts of the national agencies who have incurred the expenditure in respect of food aid before the end of the following year.

It must be remarked, however, that the Member States did not forward the closing statements of expenditure incurred in 1975 until 1977. At the time of drafting the present report, the departments of the Commission had not yet undertaken the checking of accounts in several of the intervention agencies.

The Court of Auditors considers the delays in the presentation of the closing statements to be excessive and contrary to sound financial management. The Court urges that the final closing of accounts henceforth be made within the prescribed time limits.

Reply of the Commission to paragraph 7.15

The Commission is aware of the delays in the final clearance of accounts, and is endeavouring to step up the on-the-spot inspections in order to speed up the clearance operations in question.

Reimbursement of additional expenditure

7.16. Demurrage charges and costs of delays in shipping have to be reimbursed to the Commission to the extent that such expenses are to be borne by the countries or bodies receiving aid.

At the close of the financial year 1978 the revenue orders issued to this effect and entered in the accounts by the institution amounted to 299 456 EUA whereas debts of this nature amounting to 45 957 EUA had been cancelled.

Reply of the Commission to paragraph 7.16

For all the additional expenditure borne by the Community and for which recipient countries or organizations are held to be responsible, revenue orders have been issued.

Many of these are for demurrage charges and the present work on improving the mobilization Regulations will aim at eliminating some of these difficulties.

7.17. Under Commission Regulation (EEC) No 303/77 [2] laying down general rules for the supply of milk products as food aid 'additional costs of insurance which arise from delays of over eight days, on the part of the recipient, between the actual delivery of the goods and the drawing up of the take-over certificate shall be reimbursed to the successful tenderer by the intervention agency concerned on production of the relevant proof and shall be borne by the Community without prejudice to subsequent reimbursement by the recipient'.

A number of successful tenderers have requested the reimbursement of additional costs of insurance under this Regulation.

It must be observed that this Commission Regulation contradicts certain provisions of food-aid agreements concluded with recipients. These agreements in fact stipulate that 'the delivery shall be deemed to have been made and the risk shall pass from the Community to the recipients at the time when the goods are delivered at the point of delivery stipulated by the Commission'. Furthermore, it would appear evident that countries or bodies which are recipients of Community aid are not subject to an internal Community Regulation whose provisions have not been included in the agreements. As a result, these additional insurance costs will be entirely borne by the Commission.

Reply of the Commission to paragraph 7.17

The review of the dairy products mobilization Regulation should deal with this problem.

7.18. At the beginning of 1979 the Commission proposed to amend certain provisions relating to Community financing of expenditure resulting from the supply of agricultural products as food aid. In the opinion which it delivered on this matter on 8 March 1979 [3] the Court of Auditors considers that the charging to Title 9 of the budget of all the expenditure relating to Community food aid projects (export refund, value of the goods, cost of transport etc.) improves the clarity of the budget and enables a more accurate assessment of the projects undertaken.

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[1] OJ No L 180, 8. 8. 1972, p. 1.

[2] OJ No L 43, 15. 2. 1977, p. 1.

[3] OJ No C 139, 5. 6. 1979, p. 15.

7.19. In addition, in its opinion of 8 March 1979 the Court of Auditors:

— observes that Council Regulation (EEC) No 2681/74 of 21 October 1974 [1] has only been amended with regard to the charging of refunds relating to Community food aid operations to Chapter 92 of the budget,

— considers that in order for an analysis of the expenditure of the EAGGF, Guarantee Section to be made from one year to the next, such refund expenditure should remain itemized within Chapter 92,

— observes that the other provisions of Regulation (EEC) No 2681/74 will remain in force, and in particular those which refer to the consultation of the EAGGF Committee prior to advances being granted to the Member States and their accounts being cleared,

— also questions the respective responsibilities and roles of the EAGGF Committee and the new Committee on Food Aid, and the way in which disputes arising from any differing opinions are settled.

Reply of the Commission to paragraphs 7.18 and 7.19

The Commission welcomes the Court's support for its proposal to regroup food aid expenditure under one budgetary title. It regrets that the Council has not yet adopted its proposal.

Delays in planning and implementing the aid programmes

7.20. Once again there were considerable delays in adopting the annual programmes, concluding agreements with recipient countries, and in mobilizing and transporting aid.

Reply of the Commission to paragraph 7.20

The 1978 programmes were presented by the Commission at the earliest possible moment, i. e. in October of the previous year; the mobilization and transport of aid is a function of the state of the product markets and of the local situation, e. g. climate, geography, period of harvest as well as of the efficiency of execution.

7.21. The Council only adopted the aid programme in respect of cereals for the year 1 July 1977 to 30 June 1978 on 30 January 1978. Moreover, the aid programmes in respect of skimmed-milk powder and butteroil for 1978 were only adopted on 28 April 1978.

Nevertheless, the acceleration in the implementation of aid projects during 1978 made up for the delays experienced at the close of the previous year.

Table 50. Implementation of food aid projects in 1978

(mobilized tonnes)

	Still to be implemented at 31 December 1977	1978 programme	Implemented or under way in 1978	Still to be implemented at 31 December 1978
Cereals	302 066	720 500	935 653	86 913
Skimmed-milk powder	130 276	150 000	141 541	138 735
Butteroil	44 276	45 000	52 996	36 280

These delays are due both to the decision-making procedures of the Council and the Commission and to the negligence of certain of the countries receiving aid. The Court of Auditors will examine in detail all the problems raised in the special report on food aid which has been requested of it by the European Parliament.

Reply of the Commission to paragraph 7.21

Although the cereals food year is from 1 July to 30 June the Community's financial year is from January to December.

The Community has decided to place the cereals food year budget in the financial year corresponding to the January to June period of the food aid year.

[1] OJ No L 288, 21. 10. 1974, p. 1.

The difficulties encountered in receiving a Council decision before the beginning of the financial year are the subject of the Commission's proposal of January 1979.

Despite the difficulties encountered in previous years the Commission effectively reduced the delays in execution in 1978 and either delivered or arranged for the delivery of aid allocated in previous years before the end of December 1978.

Mobilization procedures

7.22. The national intervention agencies are responsible for mobilizing the products intended for Community food aid. To finance these operations the Commission pays advances to these bodies which correspond to the total of this expenditure from the time when the contracts are concluded.

7.23. In most cases the mobilization of aid is carried out according to the procedure of awarding the contract on the basis of an overall fixed price which does not show any breakdown of the different component parts of the operation (collection on intervention or purchase on the market, cost of the collection, control, insurance, transport and possibly processing of the product).

The breakdown which the Commission has required only since 1975 and which consists of separating the cost of shipping is still inadequate as it does not allow analysis of the variations in price which can appear for the same operations.

Furthermore, for certain emergency aid, the Commission concludes contracts by mutual agreement. In these cases, there is no way of ensuring that the fairest price is obtained and it is moreover impossible to make an analysis of prices.

7.24. The Court of Auditors deplores the fact that for the assessment of the prices offered, the procedure followed compels the Commission departments to rely entirely on the national intervention agencies.

7.25. In its reply to a comment made by the Court of Auditors in the 1977 Report, the Commission considered that with regard to tendering 'the most important task is to accept the most favourable offer irrespective of its breakdown'.

The Commission's reply is unsatisfactory since, in addition to the choice of the lowest bid, it is necessary to be aware of all the constituent parts of the price in order to satisfy oneself of the merits of the tender. Audits carried out in the past, moreover, revealed that certain intervention agencies require from the bidders a detailed breakdown of their tenders. The Court of Auditors considers that the Commission should insist that such information be supplied so that it may have a better idea of the conditions under which aid is mobilized.

Reply of the Commission to paragraphs 7.22 to 7.25

The Commission agrees in general with the Court's comments. The lack of information — particularly in transport arrangements — leaves the Commission and the recipient countries open to abuse.

Mishaps affecting the transport of aid

7.26. As during previous years the shipment of Community aid was marked by certain mishaps which could have affected the food supply of the communities concerned.

7.27. At the beginning of May 1978 the Commission decided upon an emergency action for the benefit of the People's Republic of Mozambique and the delivery of 1 500 tonnes of durum wheat to the port of Maputo.

On 26 August 1978, i.e. eight days after leaving the port of shipment, the vessel — of Greek registration — sank in the Mediterranean Sea.

The successful tenderer had to carry out this project afresh without any additional cost for the Community. The 1 500 tonnes of cereals, however, were not delivered to a port in Mozambique until the end of November 1978, i. e. more than six months after the date on which the decision was made by the Commission.

7.28. On 30 June 1978 a cargo of 500 tonnes of skimmed-milk powder left Hamburg for Mozambique. In the North Sea some 75 % (373·350 tonnes) of the goods suffered serious damage and the ship was laid up for about two months in the port of Antwerp.

After the intervention agency concerned had replaced the perished goods, the vessel finally reached Maputo on 6 October 1978.

Reply of the Commission to paragraphs 7.26 to 7.28

In respect of transport in general the Commission has begun discussions to prepare a framework Regulation for the transport of food aid.

Unforeseeable events like shipwreck and fires on ships are beyond the Commission's control and it is possible to observe that in comparison with the total tonnage of products shipped these accidents are rare and fall within the normal statistics for marine risk.

On the other hand even if these accidents have no financial consequences for the Community the prejudicial effect on recipient countries are obvious and unacceptable. A more strict control of the Community over transport operations is necessary.

7.29 In August 1978, aid consisting of 25 000 tonnes of common wheat was sent to two ports in Mozambique. En route at the request of the authorities of the beneficiary country, the ship was diverted to another port. This change of route involved an additional expenditure of 30 000 US $, borne by the Community budget.

Reply of the Commission to paragraph 7.29

The boat was rerouted to another port to avoid blockages in the ports where it was originally destined. This rerouting was accepted in order to avoid unnecessary delay in delivery and demurrage charges.

7.30. Under the 1976/77 and 1977/78 programmes, the Community delivered cif large quantities of cereals and milk products to Vietnamese ports.

The documents audited by the Court of Auditors reveal that almost all of this aid was transported by non-Community vessels, i. e. the Soviet Union (30 000 tonnes of rice), Greece (20 000 tonnes of rice), Singapore (5 000 tonnes of rice) and Poland (5 000 tonnes of skimmed-milk powder).

The same applies for the Community aid granted to this country through the intermediary of international organizations (Unicef, International Committee of the Red Cross) which were transported by boats flying the flags of non-member States (Poland, Greece, the German Democratic Republic, Panama).

7.31. In such circumstances, there is a danger that the beneficiary countries will be unaware of the origin of the Community food-aid products.

7.32. With regard to the transportation of Community aid, the Court of Auditors would like to call the attention of the Commission to the opinion which it adopted during its meeting of 8 March 1979. It notes that at present there is no rule regarding the transportation of food aid. Consequently, the Court of Auditors considers that the Commission should lay down the conditions for the transportation of Community food aid.

With regard to the choice of vessels, in any event when the Community bears the cost of transportation beyond the fob stage, the Court wonders whether, by analogy with the mobilization of aid, priority could not be reserved to vessels flying the flag of a Member State of the Community, or failing that, of the country receiving Community aid; it is only in exceptional cases and for specific reasons that recourse may be had to vessel of other countries.

Reply of the Commission to paragraphs 7.30 to 7.32

Vietnam is not the only country which receives aid delivered by ships flying third-country flags.

At present the choice of shipping for deliveries cif, which are subject to an inclusive tender, is the responsibility of the tenderer. The selection of the successful tender is made by the intervention agency. The Commission is aware that, in general, it is unsatisfactory that an important element both of expenditure and of managerial responsibility is beyond its control (see paragraphs 7.23 to 7.25).

Outside the dock area the question of identification of aid is rarely related to the nationality of the shipowner. The mobilization Regulations provide for all Community aid to be clearly marked on the outside of the packages both as to its origin and proposed use. On the other hand the final consumer may never see the original package and bulk deliveries carry no marks of origin. The population can only be made aware by giving greater publicity to the arrival of the aid. Some authorities and journalists have cooperated with initiatives to organize such publicity. Some have not.

Audit of the utilization of aid

7.33. The previous report drew attention to the inadequacy of the information obtained by the Commission in respect of the conditions under which the goods are received, the aid is distributed and marketed and the proceeds of sale are utilized. The gaps in information found in the 1978 operations remain just as serious.

It should be pointed out that in 1978, however, the Commission departments continued their efforts to give greater attention to supervising the implementation of the food-aid agreements.

Reply of the Commission to paragraph 7.33

As the Court notes in 1978 the Commission reorganized the Food-Aid Division specifically to improve the control of implementation of food aid. In addition to more direct involvement with delegates in the ACP States (which are not the principal recipients) and a review of past actions the new structure provides for a service to check reports of misuse of aid or specific difficulties drawn to the attention of the Commission.

This service has undertaken several missions to check reports of misuse and to examine problems which lead to additional expenses for the Community.

7.34. In the ACP countries, the Commission delegates were instructed to audit the food-aid projects. Although in some cases there has been a lack of coordination between the Commission's departments and its delegations, the information supplied makes it possible to mitigate to a certain extent the deficiencies of the local administrations and so to obtain better assurance that the operations were carried out.

7.35. In 1977, the Commission decided upon emergency measures for the benefit of Ghana. In agreement with the Ambassador of that country in Brussels, the 5 000 tonnes of wheat had to be shipped in bulk to the port of Tema, and then distributed free of charge to the inhabitants in the north of the country.

Although the mobilization procedure had already been under way since 16 September 1977, the Ghanaian authorities requested that the cereals be delivered in sacks and at another port of that country. Having regard to the delays and costs that the cancellation of the tendering procedure would involve, the Commission did not follow up this request made through the delegate. Due to congestion at the port, it was not possible to unload the Community aid at Tema until 4 December 1977. Subsequently, the bagging and transportation of this emergency aid proceeded at a very slow pace and under very bad conditions. According to a report by the Commission delegate, on 30 January 1979, i. e. approximately 14 months after the cargo was unloaded, the following summary could be made of the operation:

— 3 264·650 tonnes (65 %) had been distributed,

— 125 tonnes (2·5 %) had been declared unfit for human consumption,

— 1 610·350 tonnes (32·5 %) remained stored in unsafe conditions in the port of Tema.

7.36. The distribution of milk products (500 tonnes of skimmed-milk powder and 500 tonnes of butteroil) granted under this same emergency action was also seriously delayed.

7.37. In 1977 the Commission again delivered to Ghana 1 200 tonnes of milled rice, 2 300 tonnes of skimmed-milk powder and 200 tonnes of butteroil intended for marketing. The proceeds from the sale of these products amounted to 511 174 EUA, of which 154 983 EUA were intended to finance the extension of the rice fields.

Thus, it is still not known how 356 190 EUA (equivalent to 69·68 % of the sale proceeds of the aid granted under the 1977 programmes) were utilized.

Reply of the Commission to paragraphs 7.35 to 7.37

One such mission to Ghana in October 1978 investigated the problems outlined by the Court. As a result of that mission it is possible to state that the Ghanaian authorities encountered many difficulties in setting up an emergency administration and allocating resources to it under the pressures of the emergency.

A further allocation from the counterpart funds shall be made to the National Rabbit Project and the delegation has established a regular accounting system to monitor payments from the counterpart fund account.

7.38. In recent years, the Community has granted Zaire large quantities of food aid. These programmes, carried out in the form of direct aids, i.e. through the intermediary of specialized agencies, encountered numerous difficulties, particularly due to the vast size of the territory. As has already been pointed out on many occasions the information communicated by the beneficiary country is extremely fragmentary and does not allow for any systematic audit of the effectiveness of the aid granted.

7.39. From a report by the Commission delegate, however, it appears that the marketing of 6 332 tonnes of cornflour delivered in 1978 to the port of Matadi involved serious abuse. The goods were diverted from their true destination (the provinces of Kasai and Shaba) and sold in the capital's market. According to this document, the sales enabled certain traders to gain huge profits in a fraudulent manner.

Reply of the Commission to paragraphs 7.38 and 7.39

Despite enquiries from the delgate and the Commission a satisfactory explanation to these allegations has not yet been given. However, the difficulties of delivering food aid to Zaire has effectively been recognized by the Commission in the 1979 programme in so far as all dairy products will be channelled through organizations which have a local administration which can supervise delivery, and a similar arrangement will apply for cereals in the future if there is no improvement during 1979.

7.40. For the first time since the beginning of the food-aid operations, the Commission obtained a product by purchasing it on the market of a developing country. Thus it was that on 28 July 1978, taking account of the situation on the Community market and the urgent need for aid in certain parts of Zaire (province of Shaba), the Commission privately bought 2 000 tonnes of white cornflour on the Zambian market.

Deliveries by rail and road were made at intervals as from September 1978. The last certificate of acceptance of delivery was issued on 14 February 1979.

7.41. With regard to non-associated States, the audits carried out by the Court of Auditors show that the information obtained on the actual conditions under which goods are distributed and marketed remains as fragmentary, that the periodic communications on the proceeds of sale are irregular in the extreme and that no audit has been carried out on their use.

7.42. The information available to the Commission also reveals that the implementation of the aid programmes does not always correspond to the intentions.

Reply of the Commission to paragraphs 7.41 and 7.42

The difficulty of receiving information is aggravated in non-associated States by the lack of a regular representative of the Commission. There is thus a more limited possibility of undertaking a reliable audit from headquarters because of the lack of local knowledge and prior information on which to prepare an enquiry.

It must be underlined that the staffing of the Food-Aid Division is not designed to undertake regular missions in all recipient countries.

7.43. In March 1969, the World Food Programme (WFP) concluded a five-year agreement with India which provided for the delivery of 126 000 tonnes of skimmed-milk powder and 42 000 tonnes of butteroil. The aim of this project was to increase capacity for the production, processing and distribution of milk in the regions surrounding the four main towns of the country.

The information sent by the WFP and by the specialist Indian agency makes it possible to summarize this vast project entitled 'Flood I' as follows:

Table 51. Operation 'Flood I'

	Previous position	Estimates	Position at 31 March 1978
Duration of the project		Five years	Nine years
Donations from the WFP:			
Skimmed-milk powder (tonnes)		126 000	100 068 (1)
Butteroil (tonnes)		42 000	34 570 (2)
Expenditure (millions of US dollars)		127	82·16
Production capacity (thousands of litres per day):			
Of the main dairies	1 000	2 750	2 900
Of the seasonal dairies	—	1 480	2 245
Actual milk production (thousands of litres per day)	902	2 750	1 819
Supply of fresh milk (thousands of litres per day)	687	2 275	1 247
Producers aided by the project	—	1 000 000	831 916
Local cooperatives	—	—	8 070

(1) Including 60 041 tonnes given by the Community.
(2) Including 32 841 tonnes given by the Community.

In view of the magnitude, complexity and original nature of the Flood projects, the Court of Auditors will deliver its first comments on this operation in the special report on food aid which the Parliament has requested.

7.44. It should be added that in 1978, the Community took the decision of principle to participate directly in the continuation and expansion of this project.

AUDITS IN THE BENEFICIARY COUNTRIES

7.45. In its audit for 1978, the Court of Auditors carried out audits in two associated countries receiving Community food aid.

7.46. The only aid programme for the benefit of a Central African country was carried out under poor conditions. In fact, of the 1 000 tonnes of various cereals which should have been delivered at the place of destination for distribution to the inhabitants:

— 124·95 tonnes disappeared en route or in storage,

— 559·39 tonnes were distributed or, to unascertained extent, sold.

— 315·66 tonnes were stored for too long and became unfit for human or animal consumption.

7.47. It should be pointed out that the sales were made to a public administration, to private individuals and also to the armed forces (50 tonnes) at a lower price than that which was usually paid on the market. The proceeds from these sales (approximately 15 000 EUA) were transferred into an account of the Ministry of Agriculture and were paid to purchase rice and to repair cars.

Reply of the Commission to paragraph 7.47

The difficulties encountered in receiving explanations from the authorities resulted in the withdrawal of all aid undelivered at 31 December 1978 and its exclusion from the 1979 programme.

7.48. Since 1970, the Community has granted 72 476 tonnes of various cereals, 5 240 tonnes of skimmed-milk powder and 650 tonnes of butteroil to a

country in the Sahel. From the outset, the food-aid programmes to these countries encountered the worst difficulties.

7.49. During the catastrophic drought between 1973 and 1975, the authorities set up a committee responsible for the transport and distribution of the aid received from all countries and donor organizations. Until February 1978, this committee was directed by an influential member of the Government. Since then, this minister and other personalities have been arrested and received heavy sentences for the fraudulent use of the proceeds of sales from aid intended for victims of the drought. Under these circumstances, the representatives of the Court of Auditors have not been able to investigate the use of Community aid supplied before February 1978.

7.50. In landlocked countries, the distances and the inadequacy of the means of transport seriously hinder the transport of aid to its destination. In this way the transport of food aid by rail is restricted by the capacity of the track and also by the fact that the authorities do not always give priority to food aid. Transport by lorry from certain ports of shipment may be quicker, but is considerably more expensive.

7.51. A further difficulty arises from the fact that in the event of delivery of goods 'free to destination' the successful tenderers very often omit to give the recipients notice of the arrival of the goods. Thus in respect of delivery in 1978 of a load of 650 tonnes of skimmed-milk powder, neither the national authorities nor the Commission delegation were informed that the goods had been supplied.

Reply of the Commission to paragraph 7.51

This is a consequence of transport being the responsibility of the successful tenderer and beyond the control of the Commission. Information on the expected time of arrival of goods shipped from Europe is an exception rather than the rule and the Commission supports the Court's criticisms of the lack of information from intervention agencies in this regard.

7.52. Under the 1976 programme, an ACP State was granted by the Community an aid of 2 900 tonnes of skimmed-milk powder, which at the beginning of 1979 had only been partly implemented.

This delay, as well as a more thorough assessment of actual consumption, indicates that the requirements of this country had been greatly overestimated when the annual programme was drawn up.

Moreover, a batch of 800 tonnes of skimmed-milk powder, which had left Europe on 10 July 1978, did not reach its destination until the end of September 1978. At the beginning of February 1979, i. e. more than four months after delivery, it was established during the visit of inspection by the Court of Auditors that the recipient of the aid had only taken possession of 376·50 tonnes of the goods, while more than 400 tonnes were still in storage at the station.

Reply of the Commission to paragraph 7.52

The delay in delivery was due to a disruption of the railway from the port to destination caused by flooding.

The overestimation in 1976 was compensated by zero allocations in subsequent years, and this explains to some extent the long delay in delivery. A control visit of the Commission has studied the problem and has indicated that, for the future, dairy product aid to this country should strictly follow the guidelines laid down for the 1979 programme in dairy products; e. g. milk powder for free distribution should be handled by an organization having local distribution facilities (e. g. a NGO) and direct aid should be allocated to the dairy industry for reconstituion and processing.

It is well to note that the difficulties in administration noted in 7.49 and 7.50 also applied in large part to the evaluation and delivery of the 1976 allocation in skimmed-milk powder.

7.53. Under the terms of the Agreements, the countries in receipt of aid must regularly inform the Commission of the conditions of delivery, distribution or marketing as well as of the utilization of the proceeds of sale. Most of the countries do not fulfil their contractual obligations and it is often the case that the Commission delegation on the spot has to make good the deficiencies of the local administration.

Reply of the Commission to paragraph 7.53

While it is true to say that many recipient countries do not observe to the letter the conditions agreed before

delivery of the aid it is impractical to expect more of the public administration of a recipient country than it can reasonably supply. The role of the Commission, including delegates in ACP countries, is therefore of great importance in helping authorities overcome such difficulties and in ensuring that the conditions are met as far as is possible.

7.54. Faced with the deficiencies that it found in the forwarding of information by the recipients of Community food aid, the Court of Auditors considers that the Community authorities should implement appropriate audit procedures, in order to keep a check on the way in which the aid operations are carried out. As in its opinion of 8 March 1979 it recommends that the general conditions under which aid is supplied, as well as the clauses applicable to the recipients of Community aids should make explicit reference to the audit responsibilities conferred upon the Court by Article 206 (a) of the EEC Treaty.

Reply of the Commission to paragraph 7.54

The Commission notes the Court's request to make reference in the general conditions to the Court's responsibilities for control. As mentioned above (paragraph 7.33) the Commission is strengthening its supervision and control procedures. Since 1977 the general conditions for giving aid include the following provision: 'The country of destination shall give every facility to any person nominated by the Community for the purpose of ensuring that the aid had been properly delivered and used'. This clause was introduced to cover the requirement of Article 82 of the Financial Regulation.

FINANCIAL AND TECHNICAL COOPERATION WITH NON-ASSOCIATED DEVELOPING COUNTRIES

7.55. Financial and technical cooperation with the developing countries had developed very slowly.

Although the principle of this type of aid was adopted by the Council in July 1974, it was not until the financial year 1976, and at the initiative of the Parliament, that an initial appropriation (20 million u.a.) was entered into the Commission budget.

7.56. During 1976, the Commission concluded eight contracts and committed all of the budgetary allocation. It was not until 1977, however, that the Commission made the first payments (6 005 974 u.a.) relating to these projects.

For the financial year 1977, the appropriations were increased to 45 million u.a. At the end of the year, the Commission concluded 20 Financing Agreements and committed all of the appropriations. The payments made in 1978 charged to these commitments amounted to 4 609 884 EUA whereas appropriations totalling 36 344 054 EUA were written off. The commitment appropriations provided for in the 1978 budget amount to 70 million EUA whereas the payment appropriations are 40 796 000 EUA, of which 10 796 000 EUA constitute the re-entry of appropriations committed in 1976 but not utilized as payments at 31 December 1977.

7.57. On 22 December 1978, the Commission concluded 27 Conventions for a total sum of approximately 38·7 million EUA, but only entered commitments amounting to 29 720 000 EUA in the accounts.

According to the institution, it was not possible for the commitment proposals, (for a sum of around nine million EUA) relating to certain Agreements, to be established by the authorizing officer, approved by the financial controller and entered into the accounts between the date upon which the Agreements were signed and the close of the financial year.

The Court of Auditors observes that the provisions of the Financial Regulation which lay down that 'all measures which may give rise to expenditure chargeable to the budget must be preceded by a proposal for commitment of expenditure from the relevant authorizing officer' have not been respected and consequently the amount of commitments which appears in the revenue and expenditure accounts is not accurate.

Reply of the Commission to paragraph 7.57

During the meeting of 22 December 1978 the Commission concluded and signed 27 Financing Agreements for a total amount of 38 790 000 EUA. In view of the fact that the number of participants in this meeting, signatory States of these Financing Agreements, was larger than initially foreseen, and due to the proximity of the annual balance sheet for 1978, the Commission was only able to issue a commitment for a total amount of 29 720 000 EUA.

Concerning the slowness with which the projects seemed to be executed the attention of the Court of Auditors may be drawn to the fact that nearly all projects are agricultural projects which need a longer period of execution.

With regard to projects co-financed with other international institutions (i.e. World Bank, Asian Development Bank) the financial execution of these projects depends on the rate at which the borrower presents his payment requests to the donor.

The Commission does not have the possibility, as it has in the ACP States, to monitor the technical and financial implementation of these projects by a delegation established in these countries, apart from in Thailand where the 1979 project (winged bean crop development project) has started and 20 % of the commitment has just been paid.

7.58. As during previous years, payments were made very slowly: at the close of the financial year 1978 the total payments relating to cooperation with non-associated developing countries amounted to approximately 14·4 million EUA (6 005 974 u.a. and 7 684 880 EUA) for commitments totalling some 115 million EUA (65 m.u.a. and 37 MEUA).

At 31 December 1978 only two contracts, for studies and research, had been completed. The others, for major agricultural works, civil engineering etc., were experiencing considerable delays.

7.59. All the Agreements laid down procedures for justifying expenditure (periodic progress reports, financial reports, supporting statements, etc.) which should enable both the Commission and the Court of Auditors to carry out their audits. It should however be pointed out that the supporting documents concerning expenditure remain with the other contracting party.

7.60. In 1978, the Commission concluded various technical assistance contracts in order to carry out on-the-spot checks of the financial and technical aspects of these different Agreements. The audits carried out up to now have been fairly limited and do not make it possible to assess the overall implementation of the Agreements. It should nevertheless be stressed that the diversity and geographical spread of the projects makes any systematic audit very difficult.

SPECIFIC COOPERATION PROJECTS

7.61. Community policy in the field of cooperation with developing countries is also effected by way of projects carried out through the agency of international organizations or non-governmental bodies.

Agreements concluded with UNRWA

7.62. The Community has for many years contributed to programmes of aid for refugees in the Middle East, implemented by the United Nations Relief and Work Agency for Palestine Refugees.

7.63. On 18 December 1972, the Community and UNRWA concluded an Agreement covering the period 1 July 1972 to 30 June 1975, under which the Community undertook to:

— provide various foodstuffs to be distributed free of charge to the persons receiving aid,

— pay contributions in cash to purchase foodstuffs and to cover the cost of transport and distribution of this aid.

In July 1976, that is to say a year later, the Community and UNRWA renewed the Agreement which had expired on 30 June 1975. This extension was limited to the period 1 July 1975 to 31 December 1976, with the proviso that the Agreement could be extended until 30 June 1978.

However, it was only at the end of 1978 and after authorization from the Council that the Commission and UNRWA concluded the Agreement giving a legal basis to supplies of foodstuffs delivered in 1977 and 1978. At the very end of the financial year 1978 the Commission paid to UNRWA its contributions in cash for the years 1977 (2 602 978 EUA) and 1978 (2 307 195 EUA).

7.64. Finally, within the framework of these annual food-aid programmes, the Community provides the Palestine refugees with large quantities of cereals and dairy products.

7.65. The Court of Auditors inspected the files relating to the management of the EEC-UNRWA

Agreements held by the Commission. In addition, the Court contacted UNRWA in order to examine the control procedures practised by the responsible bodies of the United Nations and the possibility of the Court of Auditors carrying out checks on the utilization of Community aid.

The audit conducted by the Court of Auditors led to the following observations.

7.66. Payments in cash made within the 1972 and 1975 Agreements amounted to some 17 million EUA of which a considerable part (approximately 1 200 000 EUA) was used for purposes very different from those determined in the Agreements (staff remuneration, training programmes, other food programmes).

Reply of the Commission to paragraph 7.66

For some periods during the years 1972 to 1975 UNRWA found that the cost of the supplementary food-aid programme was less than forecast, largely because of the enforced reductions in the programme as a result of the events in Lebanon and elsewhere. The Commission was faced with the choice of either demanding that a sum representing the underspending should be refunded by UNRWA, or proposing to the Council that UNRWA should be permitted to retain this sum and thus reduce its chronic overall deficit. It decided on the latter course which was accepted by the Council.

7.67 Under the terms of the Agreements UNRWA undertakes to draw up progress reports every year by 1 March and 1 September on the state of the programmes, that is to say, on the distribution of the products and on the use of the cash contributions.

The Court of Auditors observes that these periodic communications are not accompanied by detailed statements of the expenditure incurred, or by documents in proof of the rights vested in creditors or of services rendered, or by documents certifying that payments had actually been made.

Under these circumstances and as it was not possible to effect an audit on the spot or on the basis of supporting documents, the Court of Auditors is not in a position to assess the utilization of Community aid.

Reply of the Commission to paragraph 7.67

The question raised by the Court in these paragraphs have a more general import than the possibility to control adequately the Community contribution to UNRWA. The Commission would accept that the question of the kind of financial control, both as to objectives and limits, which can be exercised in relation to other international organizations, in particular UN organizations should be examined more closely.

In so far as UNRWA is concerned it is worth noting that through much of the period covered the conditions of insecurity and civil war in which UNRWA had to work made detailed control difficult. For the immediate future the Commission will pursue the question of improved control, reporting and accountability with UNRWA in cooperation with the Court of Auditors.

7.68. Under the terms of the Agreements, UNRWA is bound to inform the Commission at regular intervals of the implementation of the aid programmes. On the other hand, the successive Agreements concluded by the Commission with the Agency do not make provision for any means of audit by the Community of the use of aid granted by the Community.

Reply of the Commission to paragraph 7.68

The Convention concluded with UNRWA in 1975 did not contain the control clause mentioned above (paragraph 7.54) since it was not introduced until 1977. The Commission will propose that such a clause should be included in all future Agreements.

7.69. UNRWA states that within the framework of its financial regulation, it has its own audit bodies at its disposal:

— the internal audit which checks the regularity of revenue and conformity of expenditure with the financial regulation and which also investigates any uneconomic use of the Agency's finances,

— the United Nations Committee of Auditors which inspects the accounts of the Agency, certifies that they accurately represent the financial situation and reports thereon to the General Assembly of the United Nations Organization.

The Committee of Auditors consists of representatives of three member States of UNO in rotation and the audits are carried out by officials of these countries.

7.70. With regard to the audits carried out on its revenue and expenditure, UNRWA only forwards to the

Commission the annual report drawn up by the Committee of Auditors.

The Court of Auditors considers that this document is incomplete and consequently does not enable the Court to have an accurate picture of how the funds, to which the Community makes a considerable contribution, are utilized.

For the years 1975 and 1976 the Auditors acknowledge that they were not able to check the utilization of some 37 million US dollars spent in the Lebanon.

Reply of the Commission to paragraph 7.70

As noted above (paragraph 7.67 the Commission will work towards improving the control of the utilization of Community aid granted to UNRWA.

7.71. Moreover, and contrary to the Commission's reply to the 1976 report by the Audit Board, UNRWA does not accept that the utilization of aid granted by the Community should be subject to a Community audit.

This refusal emphasizes the need to establish a more rational attitude with regard to the audit of Community subsidies granted to international organizations. Furthermore, it leads to the question of the Community's right to concede to these bodies — which have their own audit departments — a total delegation of the powers of management, and of responsibility for the utilization, of Community funds.

7.72. Under the terms of the Treaty the Court of Auditors is to examine whether expenditure has been incurred in a lawful and regular manner and whether financial management has been sound.

The Court of Auditors therefore wishes to emphasize its audit responsibilities as defined in Article 206 (a) of the Treaty and to request that when such Agreements are concluded its powers be explicitly recognized by the contracting organizations.

Reply of the Commission to paragraphs 7.71 and 7.72

The Commission agrees that there is a need to establish a more rational attitude with regard to the audit of Community subsidies to international organizations.

Aid to cooperation projects undertaken by non-governmental bodies

7.73. Since its introduction in 1976 cooperation in the field of development between the Community and non-governmental bodies (NGB) has steadily increased.

The appropriations entered in the budgets of the past three financial years and the number of projects co-financed under this heading by the Community have grown as follows:

— in 1976: 2 500 000 u.a. for 76 projects,

— in 1977: 4 000 000 u.a. for 113 projects,

— in 1978: 12 000 000 EUA for 175 projects.

7.74. In 1978, the increase in appropriations made it possible to diversify the forms of cooperation and to introduce certain innovations:

— for the first time, the Community undertook to support multiannual projects. In these cases, the maximum contribution is set at 300 000 EUA for a project which can be implemented in three years,

— an amount of 73 121 EUA was committed to finance two projects intended to highlight the role of the Community in relations between industrialized countries and the Third World,

— some NGBs contributed to the distribution of Community food aid (20 000 tonnes of skimmed-milk powder), or (as emergency aid) to the supply of provisions, medicines, etc., to victims of disasters.

7.75. The general financing conditions restrict Community participation to a maximum of 50 % of the total cost of each project. But it is interesting to note the multiplying effect of Community co-financing: in the 175 projects co-financed in 1978, the overall investment made through the NGBs was about 34 850 000 EUA, which means that Community aid represented 34 % of the total investments.

7.76. The projects co-financed in 1978 may be classified as follows, according to fields of activity:

Table 52. NGB projects classified by sector

Sector	Number of projects involved	Amount in EUA	%
Agriculture	61	3 374 579	28·5
Education	54	2 714 115	23·0
Health	47	2 362 764	20·0
Economy	17	516 631	4·0
Communications (means of transport)	21	474 893	4·0
Migrants and refugees	2	42 385	0·5
Social	29	2 376 372	20·0
Total		11 861 739	100·0

7.77. The 113 projects charged to the 1977 appropriations continued throughout 1978. With the exception of an amount of 30 000 EUA relating to a project which could not be fully implemented due to the situation prevailing in the country, all the appropriations carried over from 1977 (2 172 000 EUA) were paid during the financial year 1978.

7.78. It should furthermore be stressed that the projects carried out by the NGBs make it possible to intervene in all developing countries without account being taken of the nature of their relations with the Community, their geographical position or their political system. Thus for the three years of activity, the distribution by continent is as follows:

Table 53. Geographical classification of NGB projects

(EUA)

	1976	1977	1978	Total
Africa	1 145 740	1 855 145	6 593 042	9 593 927
Asia	634 704	1 523 099	3 251 321	5 409 124
Central America and Latin America	719 556	506 453	1 796 033	3 022 042
Middle East	—	115 303	221 343	336 646
Total	2 500 000	4 000 000	11 861 739	18 361 739

DISASTER AID

7.79. In 1978 the appropriations entered under this budgetary heading (900 000 EUA) were considerably increased by means of transfers from Article 924 (Other food-aid expenditure) and from Chapter 101 (Contingency reserve) to reach an amount of 2 190 000 EUA, which represents an increase of 143 %.

Despite this substantial increase in the allocation, the Commission was not able in certain cases to fully meet the requests it received.

Through specialized organizations (World Health Organization, International Committee of the Red Cross, the Food and Agriculture Organization and various NGBs) the Community gave emergency aid in 15 cases, varying between 7 500 EUA and 1 000 000 EUA.

When concluding these Agreements, the Commission stipulates that the bodies concerned forward a final report on the implementation of the aid and, in accordance with the provisions of the Financial Regulation, that the Commission itself and the Court of Auditors have the right to carry out on-the-spot audits. Until now neither the Commission nor the Court of Auditors has made use of this prerogative, the latter by reason of its recent establishment.

Thus it has to be admitted that the Community bodies rely essentially on their contracting partners for distributing this assistance and ensuring that the operations are properly carried out.

COOPERATION WITH NON-MEMBER STATES

7.80. With regard to cooperation with Portugal and the Mediterranean countries with whom Cooperation Agreements or Financial Protocols have been concluded (Malta, Greece, Turkey, Cyprus, Algeria, Morocco, Tunisia, Egypt, Jordan, Lebanon, Syria), utilization of the commitment appropriations (222 300 000 EUA)

and the payment appropriations (97 500 000 EUA) was not begun, as the Council Regulation giving application to the provisions of the Financial Protocols had not been adopted before the close of the financial year.

Thus, in accordance with Article 6 (2) of the Financial Regulation, the commitment appropriations remain available for the financial year 1979, whereas 91 500 000 EUA of the payment appropriations will be carried over automatically and the non-differentiated appropriations (6 000 000 EUA) entered for cooperation with Portugal will be carried over after authorization by the budgetary authority.

CHAPTER 8 — STAFF EXPENDITURE

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GENERAL

8.1. Title I of the budget consists solely of appropriations relating to staff expenditure of the institutions. In addition, there is certain staff expenditure which is charged to appropriations for research and investment under Title III of the Commission. Finally, there is further expenditure for staff facilities (e.g. sickness insurance, restaurant, staff shop, etc.) for which accounts are kept outside the budget.

Staff appropriations

Appropriations under Title I

Table 54. Breakdown of staff appropriations according to chapters

Chapter	1977 (u.a.)	1978 (EUA)
10 Members of the institutions	10 413 388	13 870 280
11 Staff	350 859 775	478 417 020
12 Allowances and expenses on entering and on leaving the service and on transfer	18 372 848	22 074 040
13 Missions and duty travel	9 616 350	14 405 082
14 Social welfare	1 804 130	2 513 530
15 Internal training courses and vocational training of staff	1 764 300	2 388 600
Total	392 830 791 u.a. (491 038 488 EUA) (1)	533 668 552

(1) 1 EUA = $\frac{50}{40}$ u.a.

Table 55. Breakdown of staff appropriations according to institutions

Institution	1977 (u.a.)	1978 (EUA)
Parliament	48 666 963	67 173 850
Council	37 369 500	50 406 692
Economic and Social Committee	7 475 600	9 842 460
Commission	288 176 700	385 353 500
Court of Justice	9 412 540	13 068 270
Court of Auditors	1 729 488 (1)	7 823 780
Total	392 830 791 u.a. (491 038 488 EUA) (2)	533 668 552

(1) Of which:

Audit Board:	1 172 028 u.a.
ECSC Auditor:	205 160 u.a.
	1 377 188 u.a.

(2) 1 EUA = $\frac{50}{40}$ u.a.

8.2. As can be seen from the tables, the appropriations for staff under Title I have increased from 491 038 488 EUA to 533 668 552 EUA i.e. by 42 600 000 million EUA or 8·7 % approximately.

Appropriations under Title III

8.3. Chapter 33 of the Commission budget for 1978 contains the following amounts for staff expenditure:

(a) direct action:	69 821 212 EUA
(b) indirect action:	16 474 800 EUA
	86 296 012 EUA

which represent 45 % of the expenditure under Chapter 33.

Staff

Table 56. Officials and temporary staff

Institution	1977			1978			Change 1977/78	
	Posts provided for in the budget (a)	Staff at 31 December (b)	Difference (a) — (b) (c)	Posts provided for in the budget (d)	Staff at 31 December (e)	Difference (d) — (e) (f)	In posts provided for: difference (d) — (a) (g)	In staff difference (e) — (b) (h)
Parliament	1 537	1 440	97	1 709	1 597	112	+ 172	+ 157
Council	1 508	1 378	130	1 517	1 382	135	+ 9	+ 4
Economic and Social Committee	305	298	7	314	303	11	+ 9	+ 5
Commission:								
Administration (1)	8 262	7 952	310	8 602	8 228	374	+ 340	+ 276
Research and investment	2 806	2 573	233	2 816	2 597	219	+ 10	+ 24
Court of Justice	275	254	21	288	257	31	+ 13	+ 3
Court of Auditors	—	—	—	164	149	15	+ 164	+ 149
Audit Board and ECSC Auditor	35	30	5	—	—	—	− 35	− 30
Total	14 728	13 925	803	15 410	14 513	897	+ 682	+ 588

(1) Including the Office for Official Publications.

Table 57. Auxiliary staff, local staff and special advisers at 31 December 1978

Institution	Auxiliary staff	Local staff (1)	Special Advisers
Parliament	56	53	—
Council	1	80	—
Economic and Social Committee	6	6	—
Commission:			
Administration	72	717	25
Research and investment	46	—	—
Court of Justice	16	7	—
Court of Auditors	7	6	—
Total	204	869	25

(1) Including local staff paid from ex-budget appropriations (restaurants, creches, etc.).

Audit of staff expenditure

8.4. Table 54 gives details of all staff appropriations under Title 1. Of these, the most important items of expenditure under Chapter 13 (Expenditure relating to missions and duty travel) were inspected for their legality regularity and sound financial management. Moreover, in the audit of sound financial management a start was made on examination of the organization and working methods of the administrative units, with the aim of establishing whether the employment of the staff is always in accordance with actual requirements. It thus touches upon the examination of expenditure under Chapter 11 (Staff). On the other hand, it was not yet possible in the initial phase of the Court's existence to carry out a detailed audit of salaries (also Chapter 11) and this will therefore be included in the 1979 work programme.

TRAVEL EXPENSES

8.5. In the audit of staff expenditure, the Court examined the most important aspects of the accounts relating to travel expenses under Article 130.

Summary of appropriations

Table 58. Appropriations for travel expenses in 1977 (Article 130)

(u.a.)

Budgetary procedures / Institutions	Parliament	Council	Economic and Social Committee	Commission	Court of Justice	Court of Auditors	Audit Board and ECSC Auditor
Appropriations available	1 700 000	654 000	62 000	7 000 000	80 700	50 000	69 650
Commitments	1 700 000	544 948·44	61 918·06	6 467 649·70	31 495·16	6 933·12	57 927·82
Appropriations available carried over (Article 6 (1) (b) of the Financial Regulation)	—	—	—	—	—	21 551·66	—
Appropriations cancelled	—	109 051·56	81·94	532 350·30	49 204·84	21 515·22	11 722·18
Percentage of appropriations utilized	100	83·33	99·87	92·40	39·03	13·87	83·17
Percentage of carry-overs of appropriations (Article 6 (1) (b) of the Financial Regulation)	—	—	—	—	—	43·10	—
Percentage of appropriations cancelled	—	16·67	0·13	7·60	60·97	43·03	16·83
Payments, 1977	1 536 938·32	524 668·88	57 918·06	5 016 321	31 495·16	6 933·12	57 927·82
Total carry-overs to financial year 1978	163 061·68	20 279·59	4 000	1 450 381·30	—	21 551·66	—
Payments from carry-overs	161 360·43	19 843·14	3 811·12	947 834·69	—	21 485·86	—
Percentage of appropriations utilized	98·78	97·85	95·28	65·35	—	99·69	—
Percentage of appropriations cancelled	1·22	2·15	4·72	34·65	—	0·31	—
Total percentage of appropriations utilized	99·90	83·25	99·56	85·20	39·03	56·84	83·17

Table 59. Appropriations for travel expenses in 1978 (Article 130)

(EUA)

Budgetary procedures / Institutions	Parliament	Council	Economic and Social Committee	Commission	Court of Justice	Court of Auditors
Appropriations available	2 670 000	1 006 242	81 860	10 354 000	102 980	190 000
Commitments	2 513 663·77	677 234·90	79 106·05	8 335 447·45	59 198·36	162 488·57
Appropriations cancelled	156 336·23	329 007·10	2 753·95	2 018 552·55	43 781·64	27 511·43
Percentage of appropriations utilized	94·14	67·30	96·64	80·50	57·49	85·52
Percentage of appropriations cancelled	5·86	32·70	3·36	19·50	42·51	14·48
Payments 1978	2 313 772·02	632 234·10	78 594·77	6 969 967·32	58 798·36	162 488·57
Carry-overs to financial year 1979	199 891·75	45 000	511·28	1 365 480·13	400	—

8.6. As can be seen from the tables, the appropriations for travel expenses are not always estimated with the required accuracy. This is made clear by the example of the Court of Justice which in fact only needed approximately 39 % of the appropriations made available in 1977 and approximately 57 % in 1978. In order to ensure orderly budgetary management, the appropriations should in future be estimated with considerably more accuracy.

Reply of the Court of Justice to paragraphs 8.5 and 8.6

It is hardly possible to make an accurate estimate of the appropriations for travel expenses especially in respect of travel by members of the Court.

Indeed the number of meetings and gatherings which the Court is invited to attend varies from year to year and never follows any regular and foreseeable pattern.

One official outside engagement by the Court absorbs some 20 % of the appropriations.

Up-dating of daily subsistence allowance rates for missions

8.7. The daily subsistence allowances for officials and other servants on mission within the Member States have in the past been regularly up-dated. For this purpose Regulations to adjust the rates in force were adopted on 21 December 1976, 5 December 1977 and 20 November 1978, all of which entered into force on 1 October of the year in question. The retroactive character of these Regulations can lead to considerable difficulties. The administrative departments of the individual institutions feel compelled to reprocess the travel expense accounts for missions carried out after the entry into force of the Regulations which have already been settled. In order to avoid such duplication of work, the departments of several institutions have decided to postpone the payment of mission expenses until the new Regulations on the increase in daily subsistence allowances are adopted.

8.8. Deferring payment of travel expenses by several months violates the principles of sound budgetary management. Furthermore, the considerable amount of extra work in processing part of the travel expense accounts twice is uneconomic and should be avoided.

8.9. A procedure for adjusting daily allowance rates should therefore be found which, without prejudicing those who travel on mission, allows the new rates to be applied as from the date on which they are published in the Official Journal, but which does not have the retroactive effect of the present procedure.

Reply of the Commission to paragraphs 8.7 to 8.9

The Court of Auditors' suggestion would be difficult to implement. Any request for a revision of the rates must always be preceded by an increasingly detailed survey of hotel and restaurant prices in different countries. If the conclusions of this survey are subsequently confirmed by the fixing of new rates by Council decision but take effect too long after the survey had been carried out, they may be superseded by price increases occurring in the meantime. It would be unfair to make staff on mission suffer from the consequences of this situation. Furthermore, the Commission has to comply with the priorities adopted by the Council in its decisions on the Commission's proposals.

Settlement of claims for travel expenses

8.10. The payment of travel expenses at the Parliament, Council, Economic and Social Committee and the Commission was in many cases subject to considerable delay. As was revealed by the documentation, these delays were due both to the late submission of their statements of expenses by the members of staff who had been on mission and dilatory processing by the administration.

8.11. Under the existing regulations of the different institutions the member of staff should submit his statement of expenses within a set period after completion of the journey, but it is clear that these provisions are frequently not respected. This is also shown by the fact that, for example, this year the Commission again had to urge officials (see administration notice No 227 of 5 March 1979), to draw up their statements of expenses for missions undertaken in 1978. The administration granted an additional period until 15 April 1979 and thus in large measure disregarded the time limit of one month that it had itself set.

8.12. The reason why some officials appear to have no interest in submitting their statement of expenses in good time is possibly that in most cases staff receive advances to the full amount of the anticipated travel expenses. On the other hand, use is seldom made of the possibility of deducting the advances from the official's salary account where statements of expenses are submitted late, although the Financial Regulation

(Article 65) lays down that settlement shall be made within six weeks.

8.13. The abovementioned institutions are urged to take appropriate measures to speed up the settlement of travel expenses.

They should direct their attention to ensuring that not only are claims submitted on time, but that they are processed quickly by the administrations.

Reply of the European Parliament to paragraphs 8.10 to 8.13

In the European Parliament the settlement of mission expenses is a major problem and for many years the administration has been endeavouring to cope, in the first instance, through the recruitment of additional auxiliary staff, with the ever-increasing volume of work in this sector: 9 000 missions in 1976, 12 000 in 1979.

At the same time, the administration set about computerizing its accounts and, once the necessary data processing equipment was made available, developed a relatively simple computer program that has enabled it to catch up on the main backlog of work, i. e. that created by the numerous missions to Strasbourg and Brussels.

At present, a more elaborate program applicable to all mission venues is being tested. The application of data processing techniques should solve one of the many difficulties connected with missions which, taken as a whole, pose especially formidable problems for Parliament.

Reply of the Council to paragraphs 8.10 and 8.13

The Council notes that this problem does not arise at the General Secretariat as claims for mission expenses were settled reasonably quickly in 1978.

Reply of the Economic and Social Committee to paragraphs 8.10 to 8.13

Whilst, in some particular instances, mission expenses were cleared late, as a general rule mission expenses are cleared within a reasonable period.

As a result of the Court of Auditors' comment, the Committee has just taken steps with an eye to accelerating such clearance.

Reply of the Commission to paragraphs 8.10 to 8.13

Point VI of the general implementing provisions relating to Articles 11, 12 and 13 of Annex VII to the Staff Regulations states: 'on returning from his mission, the official shall submit to the appropriate departments his calculation of his travel expenses ...'.

These are inter-institutional rules.

Article 65 of the Financial Regulation of 21 December 1977 lays down that advances 'shall be settled as a general rule within six weeks following completion of the project for which they were granted'. This deadline thus applies to missions for which advances have been made on mission expenses and travel tickets (i. e. advances in kind) have been issued.

An official who has failed to submit his statement of travel expenses normally receives a reminder within about six weeks of his return from mission. If he does not do so after a further two weeks, the total amount to be deducted from his salary is determined (amount of the advance and cost of the travel ticket issued by the approved travel agency). The administration also issues regular reminders to officials in the administrative notices to submit their statements of mission expenses with the threat that it will recover the advance and the cost of tickets if a final deadline is not met.

After these reminders have been issued, use is made of the possibility of deducting advances in cash and in kind from the salaries of officials sent on mission.

The growing number of missions (25 647 in 1978 compared with 16 332 in 1972) which have, however, to be processed by the same number of officials has led to an enormous increase in paperwork (e.g. typing of vouchers, manual recovery of advances, etc.), which could be alleviated if these repetitive and tedious operations were computerized.

Individual institutions

The Parliament

8.14. In the financial year 1978 the European Parliament regularly granted officials who went on mission to Brussels, Luxembourg or Strasbourg supplements exceeding the daily allowances prescribed in the Staff Regulations. In the financial year 1977 the Assembly of the Parliament adopted a ruling which made provision for the payment of additional sums of between Bfrs 169 and Bfrs 464, according to the place

of assignment and the post of the official. The statement of travel expenses had only to be attached to the statement submitted under Article 13 (6) (c) of Annex VII to the Staff Regulations. No justification of the exceptional expenditure was required, and none was therefore given.

8.15. This procedure does not comply with the abovementioned provision of the Staff Regulations, which supposes that only 'Exceptional expenditure necessarily incurred for the purposes of the mission, either on receipt of special instructions or on account of *force majeure* and in the interests of the institution, and resulting in disbursement out of reasonable proportion to the allowance provided for' can be allowed in special cases. Therefore, the supplements should not have been granted as a matter of course.

8.16. This practice of the Parliament is not new: supplements have in earlier years been paid in addition to the daily allowances. It was objected to most recently in the 1975 Annual Report of the Audit Board. Notwithstanding, the Parliament has continued to maintain this arrangement as to supplements and thus to disregard the rules of the Staff Regulations, which are applicable in all the institutions.

If only to ensure equal treatment for all personnel, the Parliament is urged to revert to the daily allowance rates laid down in the Staff Regulations and only grant supplements in exceptional cases, for which substantive grounds have been given.

Reply of the European Parliament to paragraphs 8.14 to 8.16

The bureau had to face up to the fact that, in the absence of an indexing system analogous to that applicable to salaries, adjustments to the scale of mission allowances to take account of actual hotel and restaurant charges could be made in conformity with the Staff Regulations only on the basis of a broad interpretation of Article 13 (6) (c) of Annex VII thereto.

The bureau has always arrived at its decisions after careful deliberation, never compensating immediately or in full for the price increases recorded in the hotel trade.

After receiving the official opinion of the financial controller on these decisions and fully realizing the unusual and exceptional nature of the procedure it was introducing, the bureau felt that, in view of the number and the frequency of the missions undertaken by officials and the fact that most of these officials were in the lowest income bracket, it was obliged as a matter of urgency to find a rapid and provisional solution to this problem of mission expenses and allowances.

A permanent solution is possible only if a change is made in the procedure hitherto followed by the Council of Ministers for adjusting the fixed mission allowances to the expenses actually incurred on mission.

The Council

8.17. In 1978 no proposals were made at the Council for commitments of expenditure under Article 130 of the budget, nor was use made of the possibility of applying for provisional commitments. This procedure is not in accordance with the provisions of Article 32 of the Financial Regulation.

Reply of the Council to paragraph 8.17

The General Secretariat will adhere more strictly in future to the provisions of Article 32 of the Financial Regulation.

The Economic and Social Committee

8.18. An official, in his capacity as assistant to the Chairman and Secretary-General, accompanied a delegation to Zambia and Kenya in February 1978. A group ticket was purchased for the outward and return flight, the cost per passenger being Bfrs 39 630.

8.19. For personal reasons the abovementioned official did not return to Brussels with the official party, but instead flew from Lusaka directly to London. The cost of this flight to his country of origin amounted to Bfrs 24 592. Clearly no refund could be granted on the group ticket for the non-use of the flight by a single individual.

8.20. Due to the private nature of the journey, the financial controller refused to give his approval to the cost of the flight from Lusaka to London. However, the President of the Economic and Social Committee by Decision No 1990/78A of 15 September 1978 disregarded the financial controller's refusal on the grounds that the official had been instructed by the President to undertake the private journey.

The costs claimed by the official were for the most part refunded to him. Only the cost of the journey from London to Brussels, which amounted to Bfrs 3 310, was charged to his account.

8.21. It is clear from the facts of the case that the journey from Lusaka to London was purely of a private nature. The Court asks the President of the Economic and Social Committee to explain the grounds on which he made his decision to send the official to London.

Reply of the Economic and Social Committee to paragraphs 8.18 to 8.21

In this particular instance, the Committee opted for the most economical formula, viz. a group ticket. The saving thereby made was more than Bfrs 9 000 per head. Obviously, opting for this solution always involves a risk that one or more of the group will ultimately be unable, for any of a variety of reasons, to make the whole journey with the rest of the party.

There is no questioning, moreover, that an official on mission is on duty from the time he leaves to the time he returns to his place of work. The institution should therefore pay his travel expenses and there can be no question of a private return journey.

We absolutely agree that the wording of Decision No 1990/78 could have caused confusion in that the original text (English) uses the expression 'private business'. In context, this expression does not refer to the return trip but to the purpose of the stay in London. Indeed, this is why the Committee refused to pay the Brussels/London leg of the journey.

The person concerned respected all the relevant rules of the Staff Regulations. He ended his mission earlier than the rest of the party with the agreement of the Committee authorities and was therefore entitled to return to his place of work (see general implementing provisions, Decision No 284/73 A (a)). The reasons for granting such authorization were perfectly sound — the person concerned had a political appointment to keep in connection with the pre-election campaign for the European Parliament. Had he waited to return with the rest of the group he would have been unable to attend an important meeting. The Committee has no doubt that it took a proper decision and abided by the relevant administrative and financial rules.

Remarks of the Court on the Reply of the Economic and Social Committee to paragraphs 8.18 to 8.21

The Court of Auditors shares the view of the Economic and Social Committee that the official concerned acted in accordance with the statutory provisions.

The Court does not accept, however, the Economic and Social Committee's reply to the effect that the reasons for granting the authorization were sound: the reason given by the Economic and Social Committee is of a purely private nature and thus contradicts the statutory provisions which require that mission orders should be drawn up only in the interests of the service.

8.22. In several cases missions were combined with weekends and/or public holidays in the country of origin, and daily and overnight accommodation allowances were also claimed and paid for these holidays. No reasons were given on the travel application or on the statement of travel expenses for the special circumstances which obliged the official to work on a holiday. Only after a written request was it explained that the officials concerned had had to take part in meetings held at the weekend or on a holiday or to hold discussions with government representatives at these times.

Although it is clear that discussions and meetings did take place at weekends and on holidays, the travel application should set out the reasons for the particular timing of such journeys.

Reply of the Economic and Social Committee to paragraph 8.22

This comment seems to refer to a mission carried out by a former senior official who, at that time, did not have to apply for advance authorization to go on mission. The Committee has taken steps to make sure that, henceforward, the documents are drawn up and submitted to the chairman for approval.

8.23. An explanation given in respect of another weekend journey to the country of origin was that the official had to hold talks with the President in London on both the Friday before and the Monday after the weekend and it would be cheaper to stay in the place of assignment than to make a return journey to London. In the light of such reasoning, the question arises whether it could not have been arranged for the discussions to take place within the same week.

Reply of the Economic and Social Committee to paragraph 8.23

The question here was one of assisting the committee chairman at certain meetings which had been fixed to

suit the convenience of all those taking part. This being so, mission expenses were less high because the person concerned stopped over at the place visited during the weekend.

8.24. Advances totalling between Bfrs 17 000 and Bfrs 30 000 were granted in three cases for missions to Africa, whereas travel expenses were only calculated at between Bfrs 14 000 and Bfrs 17 000. The advances were therefore up to 44 % in excess. Nevertheless the travel expenses were not calculated until seven months later.

8.25. Justification for this mode of procedure was that final calculation had to await the accounting records of the EAC (European Association for Cooperation).

It is not apparent, however, why late submission of the accounting records by the EAC should delay the calculation of the travel expenses. If these documents are indeed indispensable, then ways should be examined to speed up their submission.

Reply of the Economic and Social Committee to paragraphs 8.24 and 8.25

The advances authorized were high because they were intended to cover not only personal expenses but also other operational outgoings whose extent could not easily be estimated in advance. It would obviously have been better to have distinguished between these two sorts of advance in order to avoid confusion. Instructions have been given to this effect.

The delay in the clearing of the expenses involved in this mission to Africa was due to the late submission of the vital account of the EAC and to a laborious correspondence with several hotels which the Committee had asked for detailed supporting documents.

8.26. Finally, one mission involved expenses for the use of taxis for local travel at the place of mission, although the conditions stipulated in Article 13 (6) of the Annex to the Staff Regulations or in paragraph VIII of Decision No 284/73 A (a) of the Economic and Social Committee of 31 January 1973 had clearly not been fulfilled.

The Court of Auditors has asked for written explanations of why these expenses were allowed. So far, no reply has been received.

Reply of the Economic and Social Committee to paragraph 8.26

During the mission to Rome (which was of a single day's duration), the official concerned had to go to different places including one 10 km outside the city, something which was unforeseeable at the time the mission order was drawn up. He therefore had to use a taxi (cost Lit 3 100 (Bfrs 115)), and this enabled him to limit the mission to a single day.

The Commission

8.27. At the Commission in Brussels, the organization of missions is at present unsatisfactory. In particular there is a lack of coordination between the various directorates-general, in the absence of which the Commission cannot avoid being either over- or under-represented at certain conferences and meetings, as was admitted in a report by the General Secretariat to the Members of 1 July 1976. Furthermore, a modern system of accounting and data processing is needed, to automate the calculation of travel expenses and simultaneously to absorb all data on the missions carried out, such as the category and grade of the official on misssion, purpose of travel, date and duration of journey, cost of various means of transport, accommodation expenses and miscellaneous expenses etc. and to compile meaningful statistics from them.

8.28. It is true that efforts are being made within the individual directorates-general to synchronize the travel of the various services. In addition Directorate-General I is in principle involved in all missions to State-trading countries. Finally, a partial record at least is kept of the progress of the missions. Nevertheless, these are only half-measures, which are in all insufficient to meet the demands of modern administration.

8.29. This problem is also acknowledged by the Commission. In 1975 it concluded a contract with a firm for the development of a software program, which would make it possible to calculate travel expenses on data-processing machines and simultaneously direct all the relevant data to a data bank. By this means, both general and specific statistics could be compiled at any time.

The cost of the contract for the development of the program amounted to approximately Bfrs 1 700 000. It is clear that the results of this study have not yet enabled travel expenses to be calculated by an automated system.

8.30. Furthermore, in 1976 the Commission convened a working party comprising representatives of

the various directorates-general, in order to draw up general guidelines on the organization of missions, in particular with regard to deciding upon the necessity for the intended journeys, prior consultation with other services concerned and subsequent checks on the execution of the missions. But here again there were no conclusive results, so that it has not been possible so far to issue corresponding guidelines.

8.31. It is hard to understand why the measures introduced by the Commission several years ago to improve the administration of missions have still not led to useful results. Considering the amount of appropriations which have to be entered into the budget each year for travel expenses, and also the costs incurred for the development of a programme, sound financial management would seem to demand that all efforts be made to bring the work to a successful conclusion.

Reply of the Commission to paragraphs 8.27, 8.28 and 8.30

The interdepartmental coordination of missions is a constant concern of the Commission.

The interdepartmental working party on missions set up in 1976 had to suspend work pending the computerizing of the administration of mission expenses.

The Commission will shortly be adopting measures on consultation between DGs (or departments) and the DGs with responsibility, for reasons of geography, (DGs I and VIII) for missions in non-European countries.

Remarks of the Court on the Reply of the Commission to paragraphs 8.27, 8.28 and 8.30

Consultation between the various departments forms only part of the solution. The whole administration of missions has not been adequately regulated.

Reply of the Commission to paragraphs 8.29 and 8.31

The delay in the computerizing of mission expenses is mainly due to two factors. Firstly, the software development has proved more difficult and complicated than initially expected and the firm retained has had to modify the program several times without, as yet, wholly satisfactory results. Secondly, the program was designed for an IBM computer; but this computer will be withdrawn from the Commission's Computer Centre next year and replaced by an ICL computer. It has therefore been agreed that the present program will first be adapted for the ICL computer for testing by the user, to avoid having to convert an already operational program when it enters service, at this would seriously disrupt the user's work.

Remarks of the Court on the Reply of the Commission to paragraphs 8.29 and 8.31

The Court already referred in its Annual Report concerning the financial year 1977 to the urgency of computerizing mission expenses. From the reply given at the time by the Commission, one would have to assume that the work begun in 1975 was almost completed. In the meantime, several months have gone by without the Commission being able to quote a date on which the computerization will be put into operation.

8.32. In the financial year 1978 the appropriations under Item 1300 were exceeded by approximately Bfrs 3·4 million, i. e. by approximately 13 % without appropriations having been transferred in time from Item 1301, which had a sufficient allocation of appropriations. For this reason appropriations for the financial year 1979 had to be used, which is contrary to the principle of the annuality of the budget.

The exceeding of appropriations was said to be due to the fact that the records kept to date of commitments entered into for missions had not always been complete. Every effort should be made to keep the entries up to date.

Reply of the Commission to paragraph 8.32

It is true that appropriations were exceeded, owing to an administrative error (no transfer) which meant that there were not sufficient appropriations under Item 1300, although the amount needed to cover the deficiency was available under Item 1301.

8.33. As was noted during the on-the-spot inquiries, daily subsistence allowances for missions to Switzerland are shortly to be adjusted retrospectively for several months. In anticipation of this revision, advances have already been granted at the level of the future rates. At the same time, and with the approval of the financial controller, the processing of statements of mission expenses was deferred for more than seven months.

8.34. This procedure is inappropriate. Advances should normally only be paid out at the current rate of the daily subsistence allowance. Moreover, the

processing of statements of mission expenses should not be delayed for several months. These measures, which are contrary to sound financial management and regularity, could have been avoided if the Commission had increased the rates of daily subsistence allowance in question in good time or envisaged an arrangement without retroactive effect.

Reply of the Commission to paragraphs 8.33 and 8.34

Allowance rates were adjusted not only for missions to Switzerland but also for missions to all other non-Community countries. In addition to this simple adjustment of allowances, a ceiling was set, for the first time, for hotel expenses for missions outside Europe. It was the introduction of this principle of a ceiling for hotel expenses and its fixing — sometimes on a country-by-country basis — which necessitated lengthy discussions within the Commission between the DGs and departments concerned, between the institutions and with staff representatives.

On 12 July 1979, the Staff Regulations Committee unanimously delivered a favourable opinion on the proposal, and formal approval of the new rates by the institutions should now be only a matter of weeks.

Advances on mission expenses in Switzerland were calculated — for obvious reasons of fairness — according to the new proposed allowance rates and ceilings.

Remarks of the Court on the Reply of the Commission to paragraphs 8.33 and 8.34

The granting of advances at rates which are only in draft for proposed new rules is contrary to sound financial management and regularity and is to be avoided in future. Furthermore, deferring for several months the processing of statements of mission expenses does not comply with the Regulations in force.

8.35. The Commission concluded a contract with a firm to provide air-taxis for missions. The contract provides for the carriage at any time of persons named by the Commission at a price which is calculated by reference to a basic tariff per flying hour and type of aircraft. In addition, fixed prices are set for direct flights between Brussels and certain destinations.

8.36. The contractual agreement permits prices to fluctuate according to the index of consumer prices and the current cost of fuel. In addition, for more than 200 or 400 flying hours per year, discounts of 2 and 5 % respectively are granted. The firm accounted for flight costs of Bfrs 18 million.

8.37. It was found during the on-the-spot audit that it is practically impossible to process properly the accounting documents produced by the firm. Thus the number of flying hours, essential for the calculation of the amount charged, cannot be checked since none of the certificates of departure and arrival signed by the passengers is included with the supporting documents. Moreover, the individual amounts billed are not analyzed, so that it is impossible to establish which price index and which fuel costs have in fact been used in the calculations.

Finally, there is no information about the number of flying hours completed up until the date of billing, which makes it difficult to verify the discount.

8.38. In view of the large sums paid to the firm each year, the appropriate measures should be taken to enable the flight costs to be calculated properly.

This could be achieved if:

— certificates of the hours flown were produced and attached to the accounting documents,

— records were kept of the monthly price indexes,

— accounts were required of the purchase price of aviation fuel,

— the number of flying hours already effected in the current year were noted on the bill.

Reply of the Commission to paragraphs 8.37 and 8.38

The Court of Auditors' comments given below call for the following replies:

(a) 'The number of flying hours, essential for the calculation of the amount charged, cannot be checked since none of the certificates of departure and arrival signed by the passengers are included with the supporting documents.'

Reply: Article 8 of the contract with the firm stipulates flat-rate tariffs for all regular destinations. Flying hours for other special flights are calculated from the flight documents, which are taken as proof, and it is hence contractually forbidden to ask a member of the Commission to time the duration of the flight. The Commission will, nevertheless, again discuss, with the firm, methods of checking flying hours.

(b) *'The individual amounts billed are not analyzed, so that it is impossible to establish which price index and which fuel costs have in fact been used in the calculations.'*

Reply: It is true that the detailed calculation of the hourly rate billed is not given in each invoice. The Commission could, however, in future, forward to the Court of Auditors every month the detailed breakdown of the hourly rate indexed on the basis of the consumer price index and the price of fuel at Zaventem airport.

(c) *The firm will be asked to give on the invoice the number of flying hours already completed in the current year.*

FINANCIAL CONTROL

8.39. The audit of mission expenses included an examination of the extent to which in the past financial year the financial control bodies of the various institutions could properly carry out their duties of budgetary control for Title 1.

8.40. It was found that the documents in support of expenditure (e. g. personal files) on recruitment, payment of installation allowances and resettlement allowances as well as expatriation allowances and foreign residence allowances etc., were not forwarded on a regular basis to the financial controller at the Council. A full examination of the legality and regularity of the payments was thereby rendered more difficult or even impossible.

8.41. For the purpose of auditing, a grasp of all the budgetary procedures by the financial control body is essential to the regularity of the budgetary and economic management. Here there is no doubt that all the documents required by the financial controller for his audits should be made available to him in good time.

Reply of the European Parliament to paragraphs 8.39 to 8.41

The right of the financial controller to report at any time to the institution on any matter having financial implications (pursuant to Article 11 of the implementing rules of the Financial Regulation) is a necessary right, since it allows him to draw to the attention of his superiors any attempt to obstruct him in the performance of his duties.

In the event, Parliament's financial controller has never had cause to invoke this right.

Reply of the Council to paragraphs 8.39 to 8.41

The Council's financial controller carries out his duties in accordance with the provisions of the Financial Regulation.

All the documents he considers necessary for the task he has to perform are placed at his disposal. However, in view of their confidential nature (see also the last subparagraph of Article 26 of the Staff Regulations), individual files are not sent to the financial controller.

Furthermore, all payment orders are accompanied by supporting documents as determined by the measures of 30 June 1975 implementing certain provisions of the Financial Regulation of 25 April 1973.

GRANTING OF FOREIGN RESIDENCE ALLOWANCES

8.42. Article 4 of Annex VII to the Staff Regulations deals with the granting of foreign residence allowances in general. According to the second subparagraph of paragraph 1 (a) of this Article the allowance shall be paid to officials:

'— who during the five years ending six months before they entered the service did not habitually reside or carry on their main occupation within the European territory of that State. For the purposes of this provision, circumstances arising from work done for another State or for an international organization shall not be taken into account.'

8.43. The term 'international organization' was restrictively interpreted by the institutions until 1974, i. e. solely public international organizations were understood by this term. In a meeting of the heads of administration on 20 May 1974, the restrictive interpretation was set aside to settle a special case, and the term came also to cover private international organizations. In a further meeting of the heads of division on 26 and 27 June 1975, the earlier interpretation was definitively abandoned and settlement of further cases in the private international organizations have in general been recognized as organizations within the meaning of Article 4 in so far as they answer certain criteria.

8.44. Within the letter and spirit of the Staff Regulations, the term 'international organization' can undoubtedly only mean public international organizations. The extension of the concept of private international organizations by the head of administration is therefore inexplicable. The institutions

must immediately take the appropriate steps to ensure that in future the concept 'international organizations' is again interpreted within the meaning of the statutory legislation.

Reply of the Commission to paragraphs 8.42 to 8.44

The decision taken by the heads of administration in June 1975 was based on careful study of legislation on international organizations. The heads of administration will, however, be informed of the Court of Auditors' comments, so that the institutions can jointly examine the exact interpretation of the term 'international organization' in Article 4 of Annex VII to the Staff Regulations since the text itself does not specify 'international organization governed by public law'.

Reply of the Economic and Social Committee to paragraphs 8.42 to 8.44

After considerable thought, the heads of administration extended the concept of international organization to cover private international organizations. The idea was to avoid making a distinction between persons living away from their countries of origin and employed by public international organizations and similar persons employed by private international organizations. As things stand, we would find it difficult to abandon the present administrative practice in the absence of a change in the Regulations.

NATIONAL EXPERTS

8.45. Item 1173 of the budget contains appropriations to cover travel and subsistence expenses of national experts seconded to the Commission departments or called for short consultations. The rules in force relating to national experts were laid down by the Commission on 9 January 1976 and supplemented on 23 December 1976. Provision is made in particular that the period of assignment does not exceed:

— three years for seconded experts, and

— six months for experts called for short consultations.

Provision is also made for experts not seconded from national administrations and institutions not to be called in future under the abovementioned Regulations and for the existing situation to be adjusted as quickly as possible during 1977. This decision was taken with respect to experts in the private sector. In its reply to a comment in this connection in the Audit Board's 1976 Annual Report, the Commission undertook to ensure the implementation of the new ruling.

8.46. Although the Commission has made efforts to implement the new ruling, at 31 December 1978 there were still cases where the administrative status of staff had not been settled.

Reply of the Commission to paragraphs 8.45 and 8.46

The irregular situations fall into two categories:

1. *experts who have been retained beyond the maximum period;*

2. *experts who are not seconded from a national body.*

The last remaining cases were regularized in the first half of 1979 (by establishment of departure from the Commission).

CLASSIFICATION OF SUPPORTING DOCUMENTS

8.47. The supporting documents of the Parliament, Council, Economic and Social Committee and the Court of Justice are generally classified in chronological order. Further subdivisions according to title, chapter, article and item — as practised by the Commission — are not made.

8.48. The audit of documents by the European Court of Auditors was carried out by various sectors, and responsibility was delimited according to title, chapter, article and item of the budget. From this it became clear that classification in chronological order alone considerably impedes the work of the individual sectors or occasionally even makes it impossible.

8.49. It thus appears that urgent measures are also required in the abovementioned institutions to classify supporting documents in accordance with the auditing requirements of the internal and external control authorities.

Reply of the European Parliament to paragraphs 8.47 to 8.49

The classification by budget item of every payment authorization would require a system whereby every authorization related to a single item only. Since it is not uncommon for a payment authorization to be charged to several budget items, the system recommended, for its own needs, by the Court of

Auditors would mean that the original of the authorization would have to be filed under one of the items concerned and a photocopy under each of the other items.

Parliament cannot meet the Court's request but will endeavour, as part of the analytical accounting system it intends to introduce once it has acquired adequate data-processing facilities, to take into account the auditing requirements of both the internal and the external control authorities.

Reply of the Council to paragraphs 8.47 to 8.49

The Council takes the view that there should be standard rules on this question which should be applied by all the institutions.

It requests the Court of Auditors to provide more information on the system of classification it recommends so that it can adopt the rules in question.

Reply of the Economic and Social Committee to paragraphs 8.47 to 8.49

The Committee understands the difficulties of the departments of the Court of Auditors and will do its utmost to classify supporting documents in a way that meets the Court's working requirements. It should be pointed out that the Committee's existing system has satisfied all the authorities concerned — authorizing officers, financial controllers, accountants.

Reply of the Court of Justice to paragraphs 8.47 to 8.49

It is to be noted that, since the financial year 1978, the Court of Justice has classified vouchers by title and chapter. A further distinction according to articles and items of the budget is not justified because of the very small number of vouchers classifiable under each subdivision.

Remarks of the Court on the Replies of the European Parliament, the Council, the Economic and Social Committee and the Court of Justice to paragraphs 8.47 to 8.49

The Court finds it essential for both internal control and external audit that supporting documents should be properly classified. It will try to get satisfactory agreements with the institutions in question by bilateral negotiations.

AUDIT OF THE ADMINISTRATIVE STRUCTURES

General

8.50. The organization of the service, the choice of working methods and their adaptation to the changing demands made upon it must be achieved in such a way as to ensure efficient use of staff and sound financial management. It is incumbent upon the relevant administrations to find solutions to the problems that arise in these areas. It was found, however, that only the Commission had at its disposal a unit that concerned itself regularly and systematically with these questions in the 'Management and Organization, and Establishment' Division. In the other institutions such units are in their infancy or are lacking altogether.

8.51. It is relevant to ask how the other institutions organize their services, select working methods, and ensure the efficient use of staff. As regards the latter, the present situation should be examined by all the institutions by way of an overall comparative study.

Reply of the European Parliament to paragraphs 8.50 and 8.51

Since the establishment of the Parliament, many bodies have undertaken studies of the best possible use that might be made of the staff placed at its disposal or to be recruited by it.

These studies have not been facilitated by the fact that the institution is constantly increasing in size. The latest proposal, put forward by Mr Robert Jackson, Rapporteur of the Committee on Budgets (see point 19 (IV) of Doc. PE 59.994 of 13 October 1979) is that, in order to help the European Parliament make an assessment of its needs, an independent study of the institution's organization and management should be carried out.

Reply of the Council to paragraphs 8.50 and 8.51

The Court of Auditors' attention is drawn to the fact that the Council Secretariat has units both in the Secretary-General's Cabinet and in the Directorate for Administration whose task it is to advise the Secretary-General on problems of management and organization, with a view to enabling him to ensure that the services function smoothly.

Reply of the Economic and Social Committee to paragraphs 8.50 and 8.51

The Committee was interested to read the Court's comments on departmental organization and working

methods. But it is difficult for small institutions to have a department like the one at the Commission which acts as internal adviser to the organization and helps to improve working methods.

At the Economic and Social Committee, this task falls to the bureau under the last paragraph of Article 56 of the Rules of Procedure:

> *'The bureau, acting on a proposal from the Secretary-General, shall organize the General Secretariat in such a way that it can ensure the efficient functioning of the Committee and its constituent bodies, and help the members in the performance of their duties'.*

In addition, the bureau has set up an internal budget group which is responsible for maintaining constant supervision over the financial management, organization and running of the Secretariat.

Reply of the Commission to paragraphs 8.50 and 8.51

The Commission wishes to point out that it carries out regular surveys on the use of staff, and staff efficiency.

Reply of the Court of Justice to paragraphs 8.50 to 8.51

On a proposal by the Registrar the Court plans or adapts the organization of its services. The creation of an organization and methods branch is not justified having regard to the size of the institution. The Court is however willing to take part in an overall comparative study of the use of staff.

Language Service

8.52. The Language Service consists of a translation and an interpretation service. The translation service alone is of considerable size — some 20 % of the total staff of the Community institutions are directly or indirectly involved in translation work — and it is of no less importance for the smooth functioning of the institutions. The Court therefore took this service as its first priority for the audit. Its findings to date merit the following comments.

8.53. It was found in general that the translation divisions of the different institutions are often faced with the same problems, although these may vary in magnitude. Nonetheless, apart from the field of terminology, there is no systematic cooperation between the institutions. A joint study of the problems affecting the planning of translation work in particular and the possibility of its automation, the evaluation of statistical data and the introduction of new clerical and copying techniques would be of use in this respect.

Reply of the European Parliament to paragraphs 8.52 and 8.53

Parliament is fully prepared to cooperate with the other institutions with a view to establishing a common system preparatory to the use of the new techniques mentioned by the Court of Auditors for the translation and reproduction of documents.

In the meantime, Parliament's language service has no option but to rely on inter-departemental cooperation, even though it may not be systematic in the way envisaged by the Court of Auditors.

Reply of the Commission to paragraphs 8.52 and 8.53

The suggestion that there should be inter-institutional consultation in an area where the problems are broadly similar yet at the same time exhibit features specific and peculiar to each institution would seem feasible.

The Commission is prepared to seek a viable solution, in conjunction with the other institutions.

EXTRA-BUDGETARY UNDERTAKINGS

Financial and accounting system for bodies that are financed from extra-budgetary resources

8.54. It was found that those bodies operating in the interests of the staff and their families, pursuant to the last paragraph of Article 9 (3) of the Staff Regulations of the European Communities, for the most part do not have a financial and accounting system which satisfies the requirements of sound financial management.

8.55. It would be in the interests of all parties — the institutions, the beneficiaries, administrators, accountants and the audit authorities — to establish as a matter of urgency suitable guidelines applying to all the bodies in question. These guidelines should comprise:

— the establishment and authorization of budgets or estimates of expenditure and own revenue,

— the chart of accounts, adapted to the various areas of activity,

— the accounting records that must be prepared at the close of each financial year,

— the discharge procedure for administrators and accountants,

— the authorities responsible for audit and supervision,

— the rules governing purchases, sales and tenders, and

— the keeping of a cost-accounting ledger where necessary.

8.56 This legal, financial and accounting framework could be drawn up on an inter-institutional level in pursuance of the general provisions for implementation in the last paragraph of Article 9 (3) of the abovementioned Staff Regulations.

Reply of the European Parliament to paragraphs 8.54 to 8.56

First of all, it is essential to differentiate between the bodies and activities that are managed:

— *jointly by the institutions, e.g. the creches, special classes, the various sports and cultural activities, etc. These are supervised by the Inter-institutional and Joint Committee, otherwise known as the SAC (Social Activities Committee),*

— *the institution alone, notably its restaurant and staff shop.*

In the first case, Parliament's financial controller has explained to the SAC administrators the need for the value of a clear legal, financial and accounting system. Parliament's administration has long been prepared — after unofficially securing, via its financial controller, the agreement of principle of the other institutions — and still is prepared to provide the necessary accounting and financial control services in respect of social activities in Luxembourg.

In the second case, and particularly as far as Parliament's restaurant and staff shop are concerned, the Court of Auditors has been able to satisfy itself at first hand that, on the whole, the financial management has been sound.

Reply of the Economic and Social Committee to paragraphs 8.54 to 8.56

The Committee agrees with the Court of Auditors that a legal, financial and accounting framework should be laid down for non-budget resources. The Committee will endeavour to lay down guidelines for the areas referred to by the Court.

Reply of the Commission to paragraphs 8.54 to 8.56

The Commission accepts the Court of Auditors' suggestions and will study their implications.

The comment made in point 8.56 seems to the Commission to be paramount. It is only within an inter-institutional framework that valid solutions can be found, since the problems raised affect all the institutions.

Reply of the Court of Justice to paragraphs 8.54 to 8.56

The Court of Justice accepts the proposal made under paragraph 8.56.

Management of the restaurant and staff shop complex of the Commission in Brussels

8.57. In 1978 the turnover of the restaurant and staff shop amounted to Bfrs 89 536 852 and Bfrs 162 447 822 respectively, i.e. Bfrs 251 984 674 altogether. The staff of these bodies during the same period numbered 120, of which 11 were officials and 109 local employees.

Cash and bank balances

8.58. A review of the cash balances of the restaurant, carried out at the instance of the Directorate-General 'Budgets' (DG XIX), revealed that a sum of Bfrs 38 000 was missing. No-one was made responsible for the loss. Appropriate rules as to the limits of responsibility are lacking; areas of responsibility should therefore be clarified as soon as possible. Furthermore it seems advisable to counter the occurrence of these deficits by more frequent, unexpected cash checks.

8.59. On 31 December 1978 the staff shop had funds of Bfrs 29 318 592 at its disposal. At the same time, its liabilities amounted to Bfrs 17 914 245 — Bfrs 3 780 791 to the Commission (Bfrs 1 115 590 social security contributions, and Bfrs 2 665 201 EEC cash balances). Accordingly, the staff shop could have paid the sums owing the Commission without any great difficulty at the end of the year.

Debtors

8.60. The balance sheet of the restaurant at 31 December 1978 contained an item 'debtors' in the sum of Bfrs 4 797 503, Bfrs 7 787 being from 1973, Bfrs 89 457 from 1974, Bfrs 79 401 from 1975, Bfrs 60 532 from 1976 and Bfrs 50 923 from 1977; the balance of Bfrs 4 509 403 is from 1978.

This shows that collection of debts is not pursued with sufficient rigour. It is not surprising, therefore, to find a debt of Bfrs 61 634 regarded as irrecoverable and having to be entered in the 'profit and loss' account for 1978. It is to be feared that the efforts made in 1979 to collect earlier debts will lead to the establishment of further losses. In order to improve the financial management, the Commission should take the appropriate steps to reduce the level of irrecoverable debts considerably in the future.

8.61. The sum of Bfrs 4 509 403 from 1978 amounts to 5 % of the total turnover. If this sum is compared with the item 'invoiced sales' i.e. with income from 'restaurant à la carte, receptions, meetings', whose turnover amounted to Bfrs 19 120 909, its share rises to 20 %. This could be avoided if the conditions of sale included settlement of the account at the reception or within 30 days at the latest.

Reply of the Commission to paragraphs 8.58 to 8.61

(a) With regard to the review of cash balances, the Commission admits that a sum of Bfrs 38 000 was missing; this sum had been passed on from one official to another and from one Directorate-General to another, and the actual date on which the sum 'disappeared' could not be determined. Areas of responsibility have now been defined (they are in fact implicit in the rules). Be that as it may, on every occasion when the use of these floats gives rise to an expense chargeable to the trading account, this expense must be justified according to its category and must be covered by appropriate vouchers.

(b) The Commission is required to pay social security contributions to the Belgian State on a quarterly basis. Contributions for the last quarter cannot be worked out by the Commission until January, when the number of local staff employed during the period in question is known. The Commission does not claim back the amount from the staff shop until it has paid it over to the Belgian State, towards the end of January. Consequently, the sum cannot be reimbursed before February.

(c) The problem regarding the 'debtors' item is that the restaurant complex is required to provide a service and obey commercial management principles within a body governed by complex financial and administrative rules. Bearing in mind this duality, the Commission has not only launched a major collection operation and recovered over 95 % of previous debts, but has also gradually introduced a system to obviate the drawbacks of such a situation.

The Commission is also studying the possibility of ensuring that the restaurants' bills are met by means of a form constituting an administrative and budgetary commitment binding upon the 'customers'; this term includes not only individual officials and the Commission and members of the Commission when they give official receptions or dinners, but also the directorates-general giving luncheons and cocktails.

These measures should help ensure faster recovery of the debts to the restaurant complex.

(d) It is not quite correct to compare the 'debtors' item with that of 'restaurant à la carte, receptions, meetings' alone, since a large proportion of this item is made up of services rendered to the Directorate-General for Information or the former Spokesman's Group which used the self-service restaurant as a logistic support for visits, groups or symposia concerned with promoting the European idea and knowledge of the institutions.

The Commission will endeavour, as stated above, to speed up the payment of bills.

CHAPTER 9 — OPERATIONAL EXPENDITURE

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INTRODUCTION

9.1. Expenditure upon buildings, equipment and miscellaneous administrative activities is chargeable to Title 2 of the budget. This Title therefore includes most of the expenditure necessary for the daily running of the institutions of the Communities, other than that directly on staff, which is dealt with under Title 1. It also includes expenses of:

(a) meetings, etc. with Government officials, experts and other representatives from the Member States (Chapter 25);

(b) studies, surveys and consultations (Chapter 26);

(c) publications and information (Chapter 27);

(d) some subsidies and study grants (Chapters 28 and 29).

9.2. Expenditure under Title 2 charged to 1978 accounts amounted to 211 999 562 EUA. The following tables give a summary of this expenditure by budget Chapter and by institution.

Table 60. Title 2: appropriations broken down by budget heading

(EUA)

Chapter	Original budget	Final budget	Total commitments
20. Immovable property investments	435 800	580 800	330 244·97
21. Rental of buildings and associated expenditure	59 706 000	64 665 333	63 600 966·76
22. Movable property and associated expenditure	17 881 550	20 690 485	19 943 312·10
23. Current administrative expenditure	29 650 240	29 930 240	27 026 943·96
24. Entertainment and representation expenses	1 021 010	1 088 510	1 035 698·59
25. Expenditure for formal and other meetings	18 090 650	18 502 150	14 133 794·87
26. Expenditure on studies, surveys and consultations	13 906 900	13 485 900	12 961 405·30
27. Expenditure on publishing and information	30 138 310	34 648 310	34 020 785·05
28. Subsidies for balancing of budgets	39 697 000	39 697 000	35 823 570·59
29. Subsidies and financial contributions	2 717 445	3 272 445	3 122 840·08
Total	213 244 905	266 561 173	211 999 562·27

Table 61. Title 2: appropriations of each institution

(EUA)

Institution	Original budget	Final budget	Total commitments
Parliament	15 925 645	25 903 413	25 109 623·60
Council	28 923 150	29 035 650	25 060 019·16
Commission	159 175 300	162 121 300	152 966 310·62
Court of Justice	4 225 910	4 225 910	3 847 888·13
Economic and Social Committee	4 994 900	5 274 900	5 015 720·76
Total	213 244 905	226 561 173	211 999 562·27

The differences between the original and final budget figures shown above derive from within-the-Title transfers made during the year under powers delegated in the Financial Regulation, from increases to Chapters 21 and 22 of 330 500 and 104 500 EUA respectively authorized by amending and supplementary budget No 2 (1), and from transfers from other Titles including Title 10: provisional and reserve budget appropriations.

(1) OJ No L 121, 8. 5. 1978 p. 1.

MATTERS ARISING FROM PREVIOUS YEARS

9.3. The Court welcomed the constructive replies of the institutions to various of the points made in Chapter 9 of its 1977 Annual Report, and is following with interest the progress towards the resolution of these matters. In particular it continues to look forward to the preparation of uniform implementing measures under Article 106 of the Financial Regulation of 21 December 1977. More detailed 'internal implementing rules' are also made for each of the

sections of the general budget of the European Communities (those applicable to the Court of Justice were revised with effect from 1 March 1979). Contrary to Article 19 of the Financial Regulation of 21 December 1977, the Court of Justice has not appointed a financial controller. The duties of this office have been allocated in the Court of Justice's internal rules to the head of the accounting service, who also has responsibility for the accounting processes. Though the Court appreciates the difficulties of achieving in a small organization the separation of duties foreseen in Article 17 of the Regulation, the Court must observe that this overlap of responsibilities does not provide the same safeguards as those which arise from the appointment of a completely independent financial controller as required by the Regulation.

Reply of the Court of Justice to paragraph 9.3

Hitherto the Court has interpreted the provisions of Article 19 of the Financial Regulation on the appointment of a financial controller as not requiring the appointment of an individual to this office but rather the adaptation of its accounting service in such a way as to ensure effective control. There is no doubt that such control is exercised.

9.4. Following the observations in paragraph 9.5 of the 1977 Annual Report, officials representing the accounting officers of each of the institutions met on 23 January 1979 with a view to harmonizing the present varied interpretations of budget nomenclatures. The Court of Auditors, whose representatives participated in this meeting, welcomed the detailed decisions taken which should encourage more harmonized treatment in future budgetary charging.

9.5. The Court also noted that the Commission has introduced a revised procedure for controlling the making of grants to various societies and associations. The Court continues to regard the coordination of such donations, as foreseen in paragraph 9.6 of the 1977 Annual Report, as being of permanent importance.

MATTERS ARISING DURING THE 1978 AUDIT YEAR

General

9.6. The Court decided, in relation to Title 2 activities, to concentrate its efforts first on the examination of systems and procedures and to programme its work over a period of years. Thus, the comments which follow reflect the more material of its observations to date and arise from those activities which the Court selected for 'systems' audit in its first full year of operation, this being the first of several years of programmed audit work.

Budgetary accounting and control

End-of-year accounting procedures

9.7. In its sample examination of the institutions' budgetary accounting and the transactions which they reflect, the Court noted certain difficulties which appeared to arise in practice from the application of Articles 5, 6, 7, 32 and 33 of the Financial Regulation in relation to end-of-year transactions.

9.8. As the Communities' budgetary accounting system is based on the year of origin (accruals accounting) principle, obligations contracted up to 31 December in any year should be charged against budget appropriations of that year. Where such obligations are not paid within that year, certain categories of appropriations should be carried forward to the next to meet the related eventual payments. The conditions under which one year's budget appropriations may be carried forward to the next are set out in the aforementioned Articles.

9.9. During the audit of the 1978 accounts, the Court observed that some institutions had charged payments to the appropriations of 1978, even though they were for the supply of goods or services for which the order was placed in 1977. These obligations should therefore have been charged (committed) against 1977 appropriations carried over. It noted the cases shown in Table 62 during its sample checks.

Table 62. Payments in Title 2 concerning 1977 obligations charged against 1978 appropriations

	Institution			
	Council	Commission	Court of Justice	Economic and Social Committee
Amount (EUA)	45 312·29	205 868·94	90 642·78	19 913·19
No of payments	33	190	93	38

The Regulation also requires all measures which may give rise to expenditure to be preceded by an accounting commitment, duly approved by the financial controller. However, the Court noted that several activities were not in fact put forward for approval until after the obligation had been entered into. The amount and numbers of transactions noted in the sample are specified in Table 63.

Table 63. Commitments in Title 2 approved by the financial controller after the measures which raised expenditure were taken

	Institution		
	Council	Commission	Court of Justice (see 9.3)
Amount (EUA)	18 562·25	161 754·77	52 364·25
No of payments	21	131	57

9.10. The Court considers that there are genuine difficulties arising from the strict implementation of the Financial Regulation at the year-end. It has raised some of these problems in correspondence with the institutions concerned and will be discussing these matters with them further with a view to arriving at some practical and acceptable solutions.

Reply of the Council to paragraphs 9.9 and 9.10

Application of the Financial Regulation does not pose the Council Secretariat any problems as regards end-of-year transactions. Charges were correctly made either against appropriations carried forward from 1977 financial year or against appropriations in the 1978 budget, apart from an error involving the sum of 10·65 EUA (as regards this last point see the letter of 5 April 1979 sent by the Secretary-General to the Court of Auditors).

Approval was granted by the financial controller before the obligation had been entered into (see also in this connection the Secretary-General's letter of 5 April 1979).

Reply of the Commission to paragraphs 9.9 and 9.10

Payments charged to the appropriations of 1978 for the supply of goods or services for which the order was placed in 1977:

The majority of transactions relate to expenditure in respect of which the Commission has not made individual commitments — as laid down in Article 32 (1) of the Financial Regulation — but rather 'provisional' commitments. This procedure was introduced as a rationalization measure; it covers small amounts of compulsory and repetitive current operating expenditure. Provisional commitments are made under Chapters 21, 22, 23 and 27 at the beginning of each quarter or half year to meet current expenditure in cases where specific amounts rarely exceed Bfrs 10 000. On 15 December the provisional commitments are amended with a view to determining the appropriations to be carried over. When establishing the amount of appropriations to be carried over (automatic carry-overs), account can be taken only of the orders prior to that date where the amounts are definitively known; this is not the case, for example, with expenditure on maintenance and repairs — charged to Items 2203, 2213, 2223 and 2233 — which has not been invoiced before 15 December. The aim is to limit the appropriations carried over to the requisite amount and thus avoid subsequent cancellation of carry-overs.

Claims submitted to the authorizing officer after 31 December which have not been taken into account when establishing the appropriations to be carried over are charged to the appropriations for the following financial year.

A number of invoices dated before 15 December have been charged to the appropriations for the following financial year for the reasons set out below:

(i) the appropriations carried over from the financial year were inadequate, e. g. unforeseeable increases in the prices invoiced over and above the amount shown on the order form in respect of which commitments were made in the financial year of origin and where the said amount was carried forward; in such cases, the use of appropriations from the current financial year is allowed under the last part-sentence of the third subparagraph of Article 5 of the Financial Regulation;

(ii) disputes between the institution and suppliers making it impossible to assess in good time the

amount actually due when the preliminary commitment is made;

(iii) acceptance procedure in respect of certain supplies and verification of invoices which have not been completed before 31 December.

Entering into commitments without prior authorization from financial control:

The cases referred to by the Court of Auditors relate to current expenditure where single amounts rarely exceed the sum of Bfrs 10 000 and in respect of which provisional commitments had been entered into earlier with due approval by the financial controller. The authorizing officer was therefore able to undertake commitments giving rise to current expenditure. Furthermore, each resultant payment order had been sent for approval to the financial controller prior to the payment being made.

The Commission appreciates the understanding shown by the Court of Auditors regarding the difficulties arising from year-end transactions; it is prepared to examine with the Court the possibilities for practical and acceptable solutions.

Reply of the Court of Justice to paragraphs 9.9 and 9.10

Table 62. Payments in Title 2 concerning 1977 obligations charged against 1978 appropriations

It is to be noted that the payments mainly concerned relate to supplies only consumed or used during the financial year 1978 and also certain current expenditure or provision of services regularly recurring in December.

This practice has been followed each year and it allowed the carry-forward of appropriations from one year to the next to be kept to the very minimum.

Having regard to the comment of the Court of Auditors, the Court of Justice will not omit to modify the procedure followed hitherto in this matter.

Table 63. Commitments in Title 2 approved by the financial controller after measures which raised expenditure were taken

Because of our limited automation equipment we have experienced great technical difficulties in introducing the EUA into our budget accounts. Our system had to be completely recast and as a result certain procedures relating to current expenditure for the month of January were held over for a fortnight with the prior approval of the authorizing officer.

Reply of the Economic and Social Committee to paragraphs 9.7 to 9.10

The Committee will take steps to take account of the comments of the Court and is gratified that the Court intends to examine possible solutions with the institutions in view of the real difficulties which are posed by the strict application of the Financial Regulation.

Operational activities

Accommodation policies of the Communities' institutions

9.11. During the year the Court made a major study with the objective of ascertaining the existence of and reasoning for any formal or informal policies towards meeting accommodation needs of the Communities' institutions, of their practices in this field, and of the economic consequences of these policies and practices. A factual summary of its findings and of observations arising thereon was given in a special report adopted on 21 June 1979 (1) by the Court of Auditors under Article 206a of the EEC Treaty.

Entertainment and representation allowances and expenses

9.12. In a letter dated 12 February 1979, the President of the European Parliament informed the President of the Court of Auditors that the Parliament's control subcommittee would like to examine the representation expenditure of the Commission for the past two years (1977 and 1978). For this purpose the Court of Auditors was asked to give to the President of the Parliament its opinion on the expenditure in question. The Court of Auditors decided to consider the President's letter as a referral under the terms of Article 206 of the EEC Treaty and, as a consequence, accordingly sent a special report (opinion) on 25 June 1979 to the President of the European Parliament. This report was confined to the allowances and expenses of members of the Commission.

(1) OJ No C 221, 3. 9. 1979, p. 1.

9.13. The Court has undertaken further audit examinations in respect of expenditure on entertainment and representation within the Commission other than by members, and within the other institutions (see Table 64).

Table 64. Expenditure on entertainment and representation allowances and expenses

	1973 (u.a.)	1974 (u.a.)	1975 (u.a.)	1976 (u.a.)	1977 (u.a.)	1978 (EUA)
Item 1003: Lump-sum allowances for representation						
Commission (2)	53 185·92	51 641·34	51 488·40	59 479·18	61 167·90	73 814·88
Parliament	—	—	—	—	—	—
Council	—	—	—	—	—	—
Court of Justice	55 626·80	55 259·98	54 793·20	72 658·66	67 699·20	84 314·38
Economic and Social Committee (1)	4 000·00	4 416·66	5 000·00	5 000·00	5 500·00	6 700·00
Item 2400: Reimbursement of specific entertainment and representation expenditure of members						
Commission (2)	199 393·08	220 876·38	209 985·58	200 687·36	215 760·60	290 009·20
Parliament	46 964·95	67 841·18	104 128·72	89 030·96	139 177·86	156 986·77
Council	108 244·72	61 121·18	134 111·34	171 139·02	178 678·25	253 935·12
Court of Justice	13 372·06	10 958·82	12 137·22	15 756·22	16 140·24	18 802·91
Economic and Social Committee	6 315·64	6 998·66	6 917·80	7 631·78	9 448·46	26 800·00
Item 2401: Reimbursement of specific entertainment and representation expenditure of staff						
Commission	113 913·48	131 041·02	150 775·16	197 442·42	194 548·08	258 161·30
Parliament	15 917·79	5 071·22	6 393·40	3 683·58	7 563·72	8 898·02
+ 2402	8 000·00	8 700·00	9 570·00	10 285·00	10 285·00	13 595·18
Council	(with Item 2400)					
Court of Justice	327·08	274·60	370·50	1 039·04	663·56	956·76
Economic and Social Committee	2 946·20	2 786·68	3 539·96	4 348·88	4 249·22	7 553·34

(1) President only.
(2) Members only.

9.14. The Commission, at a meeting on 26 April 1972, adopted certain revised rules concerning the internal control of these costs as incurred by staff, but no other institution had formal detailed rules, nor did they follow those of the Commission. With the exception of the remark made against Article 240 in the Commission's section of the budget, which specifies that reimbursement is possible only for expenses incurred in the performance of representation duties *vis-à-vis* persons outside the Commission and outside the other institutions of the Communities, the budgetary authorities make no remarks in any of the relevant budget sections concerning the usage of these appropriations. The major practices and the Court's observations are summarized below.

(i) Commission

9.15. Staff are reimbursed from Item 2401 under the procedures set out in the revised rules of 26 April 1972, which include the completion of a form giving the reason for the entertainment activity, the number of participants and a detailed list of names. No more than half of the participants may be staff of the Commission or the other institutions, and maximum figures of costs per head are laid down (13·75 EUA per head or 17·2 EUA for certain officials). The accounting management of Item 2401 is under the authority of the Director-General of Personnel and Administration, and no reimbursement in excess of the above limit is

allowed, except with the authority of this Director-General. In its detailed examination of a sample of these cases, the Court noted that in some 10 % of cases authorization had been given to pass the fixed level of expenditure. It should be stated, however, that this level had remained unchanged since 1976 and that in 25 of the 61 cases noted, the excess was no more than 5 EUA. Nevertheless, in some 10 cases of the sample the cost was more than double the level specified.

9.16. The Commission's rules require all entertainment activities concerning eight or more people to be the subject of a previously established commitment. However, the Court found more than 70 such cases which had been authorized after the event by the financial controller with the remark 'approved after being apprised of it retrospectively contrary to the Financial Regulation'. As with the cases not in paragraph 9.9, the Court deprecates such lapses from the normal requirement of prior authorization.

9.17. The Court also found that certain expenditure of an entertainment or representational nature was charged to items other than those in Article 240. The Court has not analyzed the amounts so spent, but notes that these did not appear to be subject to the same rules as those chargeable to Item 2401. The greatest element of entertainment costs outside of Article 240 were charged against Item 2720: 'expenditure on the dissemination of information, popularization and participation in public events'; in examining this, the Court found that some 20 % had not been subjected to the prior approval procedure.

Reply of the Commission to paragraphs 9.15 to 9.17

Directorates-General and departments are regularly reminded of the rule concerning prior authorization. The Commission is continually striving to ensure that its departments fully comply with these rules.

Entertainment and representation costs are mostly charged to Article 240. Nevertheless, there may be a certain similarity with expenditure on information activities arising from visits organized under Commission programmes, and which particularly involve the payment of expenses on hotels, meals, travelling etc. In view of their specific nature, the Commission has charged such expenses to Item 2720. Moreover, the expenditure in question is subject — in accordance with the internal rules on the implementation of the general budget — to the same rules as entertainment and representation expenses charged to Article 240.

The Commission departments responsible have taken the requisite steps to ensure stricter compliance with the prior authorization procedure.

(ii) European Parliament

9.18. No rules exist concerning entertainment expenditure chargeable to the Parliament's section of the budget. The President alone receives a lump-sum allowance (charged uniquely to Item 2402). Item 2400 appears to be used for entertainment activities offered by the President or by the institutions' official committees, etc. while Item 2401 meets expenditure incurred by the Secretary-General and the secretariat. No maximum amounts per head are set nor are detailed lists of participants ever attached to the supporting documentation.

9.19. For the most part the Court found that claims for entertainment activities charged to Item 2400 gave clear indication of the main guest invited and the reason for the event. It noted, however, that every second year some 30 % of the budget appropriations are spent on a reception offered by the President to the personnel of the secretariat. The January 1978 reception cost 57 638 EUA (49 612 EUA charged to 1977 appropriations and 8 026 EUA to 1978). As regards entertainment activities chargeable to Item 2401, an internal note was issued to relevant staff in January 1978 indicating that this expenditure should be subject to prior authorization by the Secretary-General, should indicate the amount concerned and that invitations had always to be given in the name of the Secretary-General.

Reply of the European Parliament to paragraphs 9.18 and 9.19

Irrespective of whether the guests are members of Parliament, other persons or even officials, the decision to hold a reception and to determine how it should be organized always rests with the President of Parliament. Indeed, it is he/she who issues the invitation, either on his/her own initiative or on a proposal from the Bureau, the committee chairmen or the Secretary-General. This is why most of the relevant expenditure is entered against Item 2400.

The material organization of receptions — and, in the first instance, the preparation of the list of guests — is the responsibility of the head of the Protocol Division. One of his duties is to set a reasonable limit on the number of persons to be invited. Depending on the importance of the guests, the place of the reception and local facilities (which vary considerably according to the city, country or continent concerned), the expenditure is

subject to a prior expenditure commitment, and this is invariably preceded by the approval of the President and, where necessary, the opinion of the ACPC (Advisory Committee on Procurements and Contracts).

This is not the first time that the Court of Auditors has made the comment appearing in point 9.18. On several occasions in the past Parliament, in its reply, has indicated that the list of guests (or list of persons 'likely' to attend a reception) could easily be submitted to the Court, although this would serve no great purpose. It has also pointed out, however, that it is not possible to forward the complete list of 'participants' as this would entail ticking them off at the entrance to the place at which the reception was held or making a physical check of the guests present.

Until the recent direct elections, the term of office of the President was approximately two years. The three Presidents elected during the past six years established the tradition of inviting all members of the staff and their husbands or wives to a reception at the beginning of their term of office. Obviously, six years ago the Secretariat did not comprise 2 000 officials and other servants, as it does today.

A reception for 2 000 members of staff and their spouses would mean issuing about 3 500 invitations, giving an attendance of around 1 800.

The high cost of the reception given in early 1978 is attributable to the large number of guests, rental of the premises, expenditure on the decoration and heating of these premises, which were very large, and the substantial increase in prices in the restaurant and catering trades.

(iii) Council

9.20. The budget of the Council makes no distinction between expenditure incurred by members or by staff and appropriations are granted only against Item 2400. No lump-sum allowance is payable. No rules exist, nor does the Council employ any special form for such expenditure, using its normal order form. Most of the entertainment activities were offered by the President in the name of the Council. Though in a number of cases the purpose was not clearly indicated, the activities appeared most often to be for Council members and for members of the Permanent Representatives during working sessions of the Council or of Coreper. Though the number of participants was shown, these were not generally named. Other charges to this budget item included a number of restaurant meals offered by the Secretary-General to directors-general, other institutions' staff and Coreper assistants.

Reply of the Council to paragraph 9.20

Receptions (lunches or dinners) are in the very large majority of cases given for members of the Council, the Permanent Representatives Committee and senior officials on visits from various capitals.

These receptions are organized at the request *of the President and after the Ambassador, Permanent Representative and Chairman of Coreper II has examined whether such meals are warranted.*

It is impossible to draw up lists of participants, since there are always changes right up to the last minute. Absolutely definitive lists could only be drawn up afterwards, provided the Permanent Representations were prepared to cooperate.

(iv) Court of Justice

9.21. Members of the Court of Justice and the Registrar receive lump-sum allowances chargeable to Item 1003 of the budget, similar to those for members of the Commission. The judges have agreed to regard the allowance under Item 1003 as being to meet their individual entertainment expenses, and therefore Item 2400 is used only for communal occasions, sponsored by the President or by several judges when the Court officially entertains. Such cases are authorized as being in the interests of the Court by the Registrar, and the number and names of the persons invited are generally given on the claim form. Staff are rarely included in these invitations. In 1978, 5 847 EUA was spent on restaurant meals entertaining 227 people (overall average 21 EUA per head), while official receptions given within the Court were responsible for the bulk of the remaining cost.

9.22. No rules exist regarding the relatively smaller expenditure incurred under Item 2401, but all such claims have to be authorized either by the institution or by the Registrar. There were five such occasions claimed for in 1978.

Reply of the Court of Justice to paragraphs 9.21 and 9.22

In 1978 the expenditure charged to Item 2401 includes two working lunches attended only by officials of the Court of Justice and of other institutions. This expenditure amounted to 97·2 EUA for nine people.

(v) Economic and Social Committee

9.23. Only the President of the Committee receives a lump-sum allowance, chargeable to Item 1003. Claims for specific reimbursement, numbers and details of participants are required to be entered into registers maintained by the secretariat. The Court noted that several working lunches had been charged to Item 2400, and that for both Items 2400 and 2401 authorization was not required before the event (except against the latter item in the case of staff below grade A2). The greatest cost of any one event was 10 958 EUA for a celebration for the 30th anniversary of the Economic and Social Committee on 20 May 1978 when there were 520 guests and for which 32 medallions were presented.

Reply of the Economic and Social Committee to paragraphs 9.14 and 9.23

For several years, the Committee has applied rules to staff members eligible for payments under Item 2401. These rules will be supplemented by additional criteria.

At its 20th anniversary celebrations, the Committee distributed 32 medals, namely:

— *11 to those members whose membership dated back to 1958,*

— *5 to officials who had completed 20 years' service,*

— *16 medals to various personalities, such as presidents of the other institutions and former chairmen of the Economic and Social Committee.*

(vi) Observations

9.24. As was found in the special investigation of the entertainment and representation expenses incurred by members of the Commission, no clear rules as to the usage of expenditure chargeable to Items 1003, 2400 and 2401 had been produced either by the budgetary authorities or by the institutions themselves. This leads to certain inequalities in the practices adopted, the importance of which the Court finds difficult to assess in the absence of any clear guidelines. The Court suggests that the institutions and the budgetary authorities should discuss and agree what activities the lump-sum allowances granted to members of the Commission, the Court of Justice and to the Presidents of the Parliament and of the Economic and Social Committee should be considered as covering, and whether working lunches (charged by the Council and the Economic and Social Committee, but generally not by the Commission or the Court of Justice, to Items 2400 and 2401) are acceptable charges against the Communities' budget. The Court must also question whether large-scale receptions for the staff, and entertainment of members of another institution — both practices regularly found in the expenditure of most of the institutions — are activities which the budgetary authorities intended the representation items on the budget to cover.

Reply of the European Parliament to paragraph 9.24

As the Court of Auditors itself points out, the practices adopted in the other institutions reveal certain inequalities, the importance of which is difficult to assess in the absence of any clear guidelines. Parliament considers that the role and, hence, the particular 'personality' of each institution is such that it is capable of laying down suitably 'clear guidelines' in regard to its representational activities. Since the requirements of an institution are properly understood by that institution alone and are not necessarily the same for all the institutions, any attempt to establish, in line with the wishes of the Court, a common nomenclature for the entertainment activities in question will most probably fail since they are bound to differ. Nevertheless, Parliament is prepared to help try to devise a 'common system' and the attendant rules and procedures.

Reply of the Commission to paragraph 9.24

The Commission would point out that, following the special investigation mentioned by the Court of Auditors, the Commission has altered the rules defining the various activities covered by representation expenses and their charging to Items 1003 and 2400.

Remarks of the Court on the replies of the institutions to paragraphs 9.12 to 9.24.

The Court notes the various replies given by the institutions. Having regard to the disparate rules and practices, it looks forward with interest to the continuing improvement and coordination of rules governing expenditure on entertainment and representation activities, and will continue to check their proper application.

Press and Information offices

9.25. The Commission considers that an important part of its duties is the dissemination of information in the Member States, particularly to interested parties therein (opinion formers, press, radio, etc.). It has therefore established in each of the Member States (and

in a number of non-member States throughout the world) external (press and information) offices to maintain local links. While these offices are responsible for the day-to-day accounting and control over their expenditure, overall control is maintained from Brussels within the framework of a budget programme on information activities. This programme is established each year by the Commission, identifying in considerable detail the activities both of the Brussels directorate and of the external offices which can be undertaken within the year's appropriations (mainly Item 2720). It endeavours to coordinate as far as possible the activities of these offices.

9.26. The Parliament has similarly established external offices in the Member States. While these perform similar functions to those of the Commission, they are of course directed much more towards Parliamentary activities; in general the offices are in contact with organizations different from those with whom the Commission's offices are concerned.

9.27. During the course of 1978, the Court visited a number of these offices. It examined the financial consequences of the local activities and the control exercised from the institutions at headquarters. Certain matters arising from the audit are still being considered between the Court and the institutions concerned, and the Court proposes to make further visits during the coming year. Among matters raised were the need for them to seek competitive prices even though limited to a national market. The Court also enquired about what steps they were taking to establish greater cooperation in the future between offices in the same town.

Reply of the Commission to paragraph 9.27

It is obligatory, in respect of transactions carried out by the press and information offices, to seek competitive prices by issuing invitations to tender in accordance with the provisions of the Financial Regulation. Transactions of the type which warrant recourse to private treaty are the exception provided for in the Financial Regulation and confined to properly justified cases involving very small amounts.

9.28. Most offices produce a monthly magazine. These they issue free of charge to a mailing list of persons selected as being interested and/or influential. The Court noted that the offices in Copenhagen and Paris made a charge for further copies of the magazine issued to the general public, but those in London and Rome did not. The Court asked the Commission whether it has a policy as regards obtaining revenue for these sources of information, and if so why there is a variation in practice between the offices.

Reply of the Commission to paragraph 9.28

For some time consideration has been given — and is still being given — to the framing of a uniform policy regarding the sale of monthly magazines, the aim of which is not to make any financial profit. Hitherto, however, such a profit has not been considered desirable on account of the differing circumstances from one country to another regarding;

— *locals practices,*

— *the degree of market penetration of each monthly magazine into the desired social strata, and*

— *above all the degree of interest shown in the Community by the citizens of each country.*

9.29. Within the ambit of the annual programme, nearly all the offices give grants to associations and organizations concerned with European questions to enable these organizations to arrange meetings, seminars, etc. The criteria for giving these grants vary with the offices concerned, although for the Commission the general outline of the offices' objectives, and in many cases the detailed budgeting for these grants, is included in the programme. The Commission requires the recipient of each grant to sign a form agreeing to report and account for the grant and to give access to the Court of Auditors where required. But the Court found that the recipients either did not submit accounts specifying the costs relating to meetings or seminars, or the accounts were in a very summarized form. Documentation, such as reports and press cuttings, justifying the usefulness of these activities is also often not available within the offices. The Court suggested that more controlled accounting should be required of the recipients. It trusts that the external offices will make greater efforts in this direction in the future. In this respect, the Court noted that while some offices gave grants on the basis of estimated costs determined beforehand, others gave fixed amounts after actual costs had been incurred; in other cases grants were made as a percentage of total costs. The Court recommends to the institutions that a common practice for the determination of accounting for grants be established (see also paragraph 9.35).

Reply of the Commission to paragraph 9.29

The comments made by the Court of Auditors on the grants made in respect of specific information events organized by outside organizations have received the Commission's fullest attention. These comments tie in with the concern voiced within the Commission. The possibility is currently being examined of drawing up practical rules — which are as unified as possible — for determining the level of financial participation by the Commission.

Clear instructions already exist regarding the documents to be supplied by outside organizations in support of reports on the use of funds made available to them, and these will be reissued.

Expenditure on the campaign towards the direct elections to the European Parliament

9.30. The 1978 budget includes appropriations for the campaign towards direct elections to the enlarged European Parliament, five million EUA by the Commission charged to Item 2729, and 9·68 million EUA by the Parliament to Article 1001. This expenditure has been incurred in three main elements and the Court has paid particular attention to these matters in its audit in view of the amounts involved and the uniqueness of this expenditure.

9.31. While both the Commission and the Parliament have separate entries in their respective budgets for expenditure on this campaign, their efforts have been coordinated under the control of a five-man working party consisting of members of the Commission and of the European Parliament. Those items relating to this campaign and included in the Commission's annual programme for information activities have been accepted by this coordinating working party, which has also been consulted in the placing of any consequent major contracts or other commitment activity.

(a) Multi-media campaign: 8 500 000 EUA

9.32. It was decided that a multi-media campaign would be mounted in each of the Member States, with the aim of getting the people of Europe interested in this direct election to the European Parliament, by informing them objectively and impartially so that they could vote in full knowledge of the consequences. The preparation of the multi-media campaign took place in the autumn of 1978, under the responsibilities of the relevant directorates-general in the Commission and the Parliament, and with the concurrence of the working party. Within this ambit and within specified budget envelopes for each country, the press and information offices in the various capitals were responsible for local control.

These offices made the initial selection of advertising agencies in each country which would be invited to tender for the contract, and made evaluations of these tenders to assist the Advisory Committee on Procurements and Contracts, and the authorizing officials, on the final choice.

Table 65. National allocation for multi-media campaigns (1)

	Budget envelope EUA	Firms invited/offered	Price position of selected tender (1= lowest)
Belgium	600 000	4/4	2
Denmark	350 000	3/3	3
Germany	2 000 000	6/5	4
France	2 000 000	5/5	2
Ireland	350 000	3/3	3
Italy	2 000 000	6/6	3
Luxembourg	100 000	4/3	1
United Kingdom	1 000 000	6/6	2

(1) As presented to the agencies and to the Advisory Committee during the selection process for the major contracts (up to September 1978).

9.33. This table shows that in only one case was the contract placed with the lowest offer made in respect of any country. And in two countries the highest offer was in fact chosen. The local office's recommendation was adopted in each case, with the concurrence of the Advisory Committee. The general reason given defending the more expensive choices was that of the multi-media campaign's special character, and of the need for quality. It was also clear that the prices quoted were indicative only, and actual costs would depend upon the activities eventually undertaken with the agreement of the press and information offices. The invitation to tender, while advising the firms of the total budget amount available, gave little or no indication of

the service required except as an outline of the general objectives. Though the general purposes were similar in every country, the tenders (and the eventual contracts) varied considerably. The Court noted in particular that the arrangements regarding fees were not always clearly stated and therefore comparisons of this cost were not made; the Court calculates these as varying from 5 % to 17·65 %. The question arises whether the selection procedures took sufficient account of the price factor and whether the failure of the institutions to predetermine their specific requirements led to there being no real financial competition.

Reply of the European Parliament to paragraphs 9.32 and 9.33

It should be pointed out that there were in fact two campaigns:

— *one conducted jointly by the Commission and Parliament,*

— *the other also conducted by these two institutions, but with each carrying out its own projects.*

The total allocation of 8 500 000 EUA for the joint campaign, which was called the 'main' campaign and mounted during the 1978 and 1979 financial years, was divided as follows:

— *five million EUA for the European Parliament (three million EUA for 1978 and two million EUA for 1979),*

— *3·5 million EUA for the Commission (three million EUA for 1978 and 0·5 million EUA for 1979).*

The 8 500 000 EUA were also divided between the Member States as follows:

	EUA (1)
Belgium	510 000
Denmark	297 500
Germany	1 700 000
France	1 700 000
Italy	1 700 000
United Kingdom	1 700 000 (2)
Luxembourg	85 000
Netherlands	510 000 (3)
Ireland	297 500

Explanatory notes by the Court:
(1) *As revised after the selection process.*
(2) *Not exclusively for the major contract.*
(3) *Campaign managed by national committee.*

The allocation of 1 815 000 EUA for the separate campaign, which was called the 'interim' campaign and carried out in 1978 by Parliament's Directorate-General for Information (in agreement with the Consultative Committee on Information) was used as follows:

	EUA
Information seminars	380 000
Extra staff	350 000
Publications	175 000
Decentralized projects (entrusted to the EP's external offices)	750 000
Audio-visual sector	90 000
Contingency reserve	70 000

As regards the contracts concluded in each Member State with a public relations firm, the Court of Auditors apparently has misgivings about the fairness of the conditions of competition laid down and the final choices made. Parliament is able to give the following assurances.

In each country concerned the services offered by the firms and the corresponding charges were considered only if they were found to conform to established professional standards. The final choice in each case was made on the basis of the quality and the range of the services offered and their compatibility with the objectives set out in meticulous detail in a document appended to the invitation to tender. However, the nature of the publicity compaign to be mounted was left to the firm to decide. Accordingly, the price factor mentioned by the Court of Auditors is only of limited importance.

Reply of the Commission to paragraphs 9.32 and 9.33

The question is raised (paragraph 9.33) whether the Parliament and the Commission in selecting the agencies to undertake the multi-media campaign took sufficient account of the price factor and whether the failure of the institutions to predetermine their specific requirements led to there being no real financial competition.

While being well aware of the need to conform with the rules of the Financial Regulation dealing with tenders for contracts, the two institutions were confronted by a novel situation in seeking to organize a multi-media campaign in each of the Member States with the

technical help of advertising agencies. They took the view that, in approaching a number of agencies in each country, their essential task was to set out the objectives of the campaign, but to leave each agency the choice of the means by which these were to be achieved. These objectives were set out in considerable detail in a document which accompanied the request for tenders. The budget available for each country was also specified: this was essential information for each of the agencies involved. In making their final choice of agencies the institutions had to take account above all of the creative approach suggested, the coverage of the population to be achieved by the mix of media proposed, and the overall suitability of the political approach suggested for each individual country. In all these respects there was genuine competition between the agencies, whereas the price factor was of limited significance, especially because the agency fees in each case respected the standard charges laid down in each country by the relevant professional body.

(b) Grants to political groups: 4 840 000 EUA

9.34. As foreseen in the budget, 4 840 000 EUA was paid by the Parliament from budget Item 3706 (after transfer from Article 1001) to finance the political groups' information campaigns on direct elections. This amount was paid to the groups as follows:

Table 66. Contributions to political groups

	EUA
Socialist Group	1 427 800
Christian Democratic Group	1 185 316
Liberal and Democratic Group	808 280
Group of European Progressive Democrats	512 556
European Conservative Group	424 468
Communist and Allies Group	481 580
Total	4 840 000

The appropriations for these advances were made conditional by the budgetary authorities upon their being subject to a control procedure fixed by joint agreement between the Bureau and the Committee on Budgets. This procedure [1] requires *inter alia* that 'the treasurers and auditors of each group shall check that the operations are correctly accounted for', and that 'each group shall address a regular report on the use of these funds to the Chairman of the Control Subcommittee of the European Parliament'. The Court of Auditors considers that it is required under Article 206a of the EEC Treaty to carry out an audit of this expenditure. In order that it may assure itself that the basic accounting controls foreseen above have been complied with, it requested the President of the European Parliament, in a letter dated 16 March 1979, to make available to it the audited accounts of the political groups together with the auditor's report, in so far as these related to the grants paid from the Communities' budget. At the date of writing these documents had not been produced and the Court has as yet therefore been unable to carry out any audit of these grants made by the Parliament. In addition, grants to three independent members totalling 14 927 EUA were paid in 1978 for which accounting will also be required.

(c) Grants to other organizations: 625 000 EUA

9.35. 625 000 EUA was set aside in the Commission's 1978 budget for subsidies to be made to European movements and other bodies for the financing of activities they have planned in this field. In all cases the authorization of the Commission was required for these grants, and the recipient was required to certify that account would be rendered on the expenditure. The Court examined a sample of those grants made during 1978 and noted at the beginning of April 1979 that only in six cases out of 28 seen had any accounts been received, while no accounts had been received for 14 similar grants made in 1977. With these grants, as with those made by the press and information offices referred to in paragraph 9.29, and with all other grants and subventions made by the Communities, the Court considers that the objective should be clearly specified and a time scale established. It should be an essential part of the institutions' control to ensure that accounts are properly and promptly obtained from the recipients. Such accountability emphasizes that the grant has a finite purpose and should not normally be of a repetitive nature, encourages the need for useful results and at the least ensures that any unspent monies may be recovered by the Communities.

Reply of the Commission to paragraph 9.35

The Commission has used the national offices to forward payments of subsidies for national organizations. This has enabled the offices which were closely involved in the selection of these organizations to supervise the proper utilization of the funds.

Since the point at issue is the submission of utilization accounts by the recipients of the subsidies, a reminder has been sent out to those who did not submit accounts to the Commission.

[1] See PE 56.636/fin. which refers to PE 47.737/BUR.extr.: Minutes of 27 January 1977 of the Enlarged Bureau of the European Parliament; and remarks against budget Article 1001.

CHAPTER 10 — SUMMARIES OF REPORTS ON EXTERNAL BODIES

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European Schools	10.11 to 10.14

10.1. The Amending Treaty of 22 July 1975 charges the Court with the audit of the accounts of all bodies set up by the Communities in so far as the relevant constituent instrument does not preclude such audit. In pursuance of this directive, the Court has examined the accounts presented by:

— the Euratom Supply Agency,

— the European Centre for the Development of Vocational Training (Berlin),

— the European Foundation for the Improvement of Living and Working Conditions (Dublin), and

— the European Schools.

10.2. The Court sent its draft observations to each of these bodies and took their Replies into account in drawing up its final reports which have been sent to the respective governing and discharge authorities. However, the Court considers it useful to include here a short summary of each of these reports.

EURATOM SUPPLY AGENCY

10.3. The Court's report on the accounts of the Agency is sent via the Director-General to the Commission, which grants a discharge to the Director-General in respect of the performance of his duties. In its report on the 1978 accounts, the Court again drew the attention of the Commission to the fact that the Agency's capital is in effect unemployed. It also criticized (i) a tendency on the part of the Agency to over-budget for certain expenditure, (ii) an extra element of subvention by the Commission's undercharging for certain facilities and (iii) the solutions adopted by the Agency to deal with various technical problems in connection with the introduction of the European unit of account. It indicated that its opinion should be sought in relation to (i) any modifications of the Agency's statute which may be necessary as a result of the introduction of the EUA and (ii) the Financial Regulation which the Agency has now indicated that it is in a position to begin drawing up for its operations. The Court noted that the Agency had, during the year, taken steps to deal with certain matters which were criticized in its 1977 Report.

EUROPEAN CENTRE FOR THE DEVELOPMENT OF VOCATIONAL TRAINING (BERLIN)

EUROPEAN FOUNDATION FOR THE IMPROVEMENT OF LIVING AND WORKING CONDITIONS (DUBLIN)

10.4. The Court's reports on these accounts are sent each year via the Commission to the Council and Parliament who give discharge to the management boards. The report on the 1978 accounts of the Berlin Centre was issued on 17 September 1979 and that for the Dublin Foundation on 14 September 1979.

Berlin Centre

Accounting and administrative systems

10.5. The Court criticized the failure of the Centre to take action on a number of weaknesses in the accounting and administrative systems and procedures

which had been drawn to the attention of the Centre in the Court's report on the 1977 accounts. It pointed out a number of further weaknesses identified during the 1978 audit. The most important of these arose from the hiring during 1978 of an IBM 32 computer. A proper study was not carried out in advance to analyze and improve existing manual systems before the computer was hired; the computer will be considerably under-utilized for the foreseeable future; and neither in volume nor in complexity do the accounting operations of the Centre require the present allocation of three members of staff plus a computer.

Matters arising from the audit of 1978 accounts

10.6. The Centre keeps its accounts in German marks but it depends on a subvention from the Commission whose budget is authorized in EUAs and which keeps its accounts in EUAs. The Court noted that a question arises in such circumstances as to which organization should bear the loss or gain resulting from the difference between the budget exchange rate (local currency — EUA equivalence) and the actual exchange rate when the subvention is transferred. (The same question arises in relation to the Foundation for the Improvement of Living and Working Conditions, Dublin). The Court found that the Centre had consistently under-utilized operational expenditure appropriations in the past three financial years. Moreover, the Centre had in its bank accounts at year-end unutilized funds equivalent to 21 % of its payments during 1978. The Court regarded this as excessive. To the astonishment of the Court, the Vocational Training Bulletin published by the Centre, a booklet of some 30 pages, was found to cost more than DM 60 per copy distributed.

Financial management

10.7. On the basis of its examination of the systems and accounts of the Centre the Court found that the financial management falls below acceptable standards on a number of counts:

(i) the failure to take corrective action on points of criticism in the Court's report on the 1977 accounts;

(ii) the repeated under-utilization of elements of its operational budget;

(iii) inadequate cash management which leaves relatively large sums unutilized in its bank accounts for considerable periods (a matter to which the Court asked the Commission to direct its attention);

(iv) the high proportion of staff concerned with internal administration;

(v) the high cost of the Vocational Training Bulletin (the Court indicated that it would examine closely the cost-effectiveness of the publication in its audit of the 1979 accounts).

In the Court's view, these observations raise questions as to whether the tasks set out for the Centre could be achieved in a more cost-effective manner by other means, a subject to which it will address itself in its future audit examination of the Centre.

Dublin Foundation

Accounting and administrative systems

10.8. The Court noted that the Foundation had implemented, with one exception, the improvements called for in its report on the 1977 accounts. The 1978 audit found its accounting and administrative systems to be generally satisfactory.

Matters arising from the audit of 1978 accounts

10.9. The observations in paragraph 10.6 above about unutilized funds and under-spending were found to apply generally to the Dublin Foundation also, with the exception that unutilized funds in the Foundation's bank accounts at year-end were somewhat less (18·5 %) in relation to the year's payments than was the case in Berlin, while the Foundation's main under-spending was in the staff chapter of the budget rather than in the operational elements as was the case in Berlin. Additionally, the Court found that the management board of the Foundation overruled a refusal by the financial controller to authorize expenditure on a supplementary group insurance scheme for staff of the Foundation. The Court endorsed the financial controller's refusal and stated that there is no provision in the Regulations setting up and governing the operations of the Foundation which would authorize this particular expenditure on behalf of its staff.

Financial management

10.10. On the basis of its examination of the systems and accounts of the Foundation, the Court identified the following weaknesses in its financial management:

(i) over-budgeting — particularly with regard to staff expenditure;

(ii) inadequate cash management, although to a slightly less serious extent than in the Berlin Centre;

(iii) activities to date confined to projects on 'working conditions' with no apparent progress in relation to the 'living conditions' element of its statutory task;

(iv) expenditure without any statutory authority on the group insurance scheme for staff.

The Court indicated that it would direct particular attention to the cost-effectiveness of the Foundation in its future audit examinations.

EUROPEAN SCHOOLS

10.11. In its report on the 1976 accounts the Court drew attention to the complete lack of internal control in the Schools' system. As part of the audit of the 1977 accounts of the European Schools, visits were paid to each of the Schools (Brussels I and II, Bergen, Karlsruhe, Luxembourg, Mol, Munich and Varese). During those visits an examination was made of the accounting systems and administrative procedures. The Court found that, as a result of the absence of an internal control function, administrative efficiency is impaired, lines of demarcation between areas of responsibility are unclear and individual members of staff are not fully aware of the precise extent of their responsibilities within the administrative structure. Moreover, despite attempts over the years to provide uniform solutions to common accounting problems, the Court has found that practices vary greatly as between Schools. Accordingly the Court recommended that the board of governors should address itself urgently to the establishment of an adequate system of internal control. The establishment of such a function need not necessarily require additional staff in each School — it could be centralized within the ambit of the board of governors' secretariat.

10.12. Staff costs account for about 90 % of all expenditure. There is no provision for a system of independent checking of salary calculations within the existing School's structure. This is a notable defect particularly in view of the complexity of the salary system for teachers. The Court found, for instance, that delays can arise in taking account of increases in the national element of salaries when calculating the 'European' element: such delays are to the advantage of the teacher. Moreover, the 'topping-up' arrangements are so intricate that the amount paid changes almost every month.

10.13. Among the defects which the Court found to be common to all Schools were:

— lack of properly maintained personal files:

the Schools as employers have a duty to be in possession of full justification for all sums which they pay to personnel;

— inadequate control of fixed assets:

while some progress is being made the Court considers that adequate control of fixed assets (chiefly comprising properly maintained registers, systematic labelling of assets and regular reconciliation of assets with the register) is an urgent matter. It recommended that the board of governors should see to it that a standard and satisfactory system is applied to all Schools.

10.14. As concerns defects particular to individual Schools the Court found that, while some improvements were called for in each School, Brussels I was singular in its failings. Even in cases where errors were unambiguously drawn to the attention of the management of this School, considerable delays occurred in rectification and in some cases corrective action has been consistently avoided to date. Among the criticisms made by the Court were errors in applying the Staff Regulations in salary matters (e.g. for 14 years a teacher was paid $3^1/_2$ extra career steps — currently worth in excess of Bfrs 150 000 a year), serious fire risks in the School buildings, lack of control over private use of telephones, defective tendering procedures, and absence of stock records. The Court recommended that the board of governors should consider deferring discharge in respect of this School until such time as the major deficiencies have been rectified.

CHAPTER 11 — THE GENERAL ACCOUNTS

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INTRODUCTION

11.1. In 1975 the Commission established an interpretation and an implementation of general rules laid down in the Financial Regulation with respect to budgetary and accounting matters, by drawing up a Regulation on measures of implementation on certain provisions of the Financial Regulation [1].

Particularly relevant to the general accounts is Title XV of this Implementing Regulation, i.e. Articles 74 to 77 inclusive, under the heading 'method of drawing up and operating the accounting system'.

Article 74 reads as follows:

> 'Drawing up of the accounting system
>
> The accounting system shall be divided into two separate parts:
>
> — budgetary accounts,
>
> — general accounts.'

and thus stipulates clearly that the general accounts constitute a self-contained accounting sub-system, separate and distinct from the budgetary accounts.

Article 75, under the heading 'budgetary accounts', contains detailed provisions for the budgetary accounting system.

In Article 76, under the heading 'general accounts', detailed provisions are laid down for the general accounting system. Paragraph 1 defines the main objective of the general accounts:

> '1. The purpose of the general accounts shall be to enable the institution's situation in respect of assets and liabilities to be ascertained.'

Article 76 (3) specifies what types of account should be kept as a minimum:

> 'The following types of account, at least, shall be kept:
>
> Type 1: capital account,
> Type 2: fixed asset accounts,
> Type 3: stock accounts,
> Type 4: sundry personal accounts,
> Type 5: accounts for cash in hand and at bank,
> Type 6: expenditure accounts,
> Type 7: income accounts,
> Type 8: outturn accounts.'

Article 76 (5) to (9) gives further detail on the different types of account mentioned in paragraph 3.

[1] Commission Regulation of 30 June 1975 on measures of implementation of certain provisions of the Financial Regulation of 25 April 1973, OJ No L 170, 1. 7. 1975, p. 1.

Article 76 (10) stipulates:

'Each institution shall draw up an accounting system along the lines set out above. It shall create groups, subgroups and individual accounts depending on its particular needs.'

Article 77, under the heading 'operation of the accounting system' gives further detailed rules, e.g. application of double entry method, technical format, details of presentation and analysis, etc.

The general accounts, as at present run by the Commission, are the subject of observations in paragraphs 11.4 to 11.8.

11.2. Financial information derived from the individual institutions' accounting systems is forwarded by each institution to the Commission to enable it to draw up a balance sheet of assets and liabilities of the Communities, as required by Article 76 of the Financial Regulation [1]. This consolidated balance sheet is considered in paragraphs 11.9 to 11.13.

11.3. Other topics dealt with in this chapter are: accounting for exchange differences (11.14 to 11.17) and internal control (11.18 to 11.20). The Court's conclusions are stated in paragraphs 11.21 and 11.22.

ASCERTAINMENT OF THE INSTITUTIONS' SITUATION IN RESPECT OF ASSETS AND LIABILITIES

11.4. Examination of the system of general accounts maintained by the Commission has led the Court to conclude that these are not geared to the objective laid down in the Regulations, but serve principally to record money movements. Except for actual assests or liabilities (e.g. recoverable advances, cautions, etc.), the contra entry should in principle be made to a revenue or an expenditure account. But in a great number of cases an intermediate booking is made to a suspense account. Items are then held in suspense until later clearance to a revenue or an expenditure account ('regularization'). Because all year-end balances of the general account are taken into the balance sheet, the latter contains a great number of uncleared suspense items. In principle, the presence of such items on the balance sheet may be due to one of the following reasons:

(a) the transaction represents revenue or expenditure attributable to another financial year and is therefore carried over via the balance sheet;

(b) items on suspense accounts cannot yet be charged definitively in budget accounts for a special reason, e.g. because precise amounts are not known until a later date, or because authorizing officer and financial controller disagree on certain legal aspects;

(c) long delays in receiving the information from authorizing officers which would enable items to be cleared from suspense accounts;

(d) delays by accounting departments in clearing items from suspense accounts even when provided with the necessary information.

The first reason is perfectly valid. The other three, however, lead to a distorted view of the financial position presented by the balance sheet, because expenditure items of the year are shown as assets and revenue items as liabilities.

11.5. As a consequence of the practice described above the balance sheet of the Commission includes numerous items which represent neither assets nr liabilities in their strict sense, nor balance sheet items in the sense of accruals, i.e. items which serve to bring revenue and expenditure to the proper financial year.

Since the relevant legislation is clear as to the character of both balance sheet and general accounts, such items should, in the general accounts, be accounted for in an identifiable manner and should not be presented as assets (for expenditure items) or liabilities (for revenue items) in the balance sheet.

Reply of the Commission to paragraphs 11.4 to 11.5

The use of suspense accounts is prescribed in certain cases by Article 65 of the Financial Regulation. It is also necessary to use them in other cases where the transitory nature of a transaction makes it impossible to charge the revenue or expenditure in question to a budget article immediately. The Commission is doing all that it can to speed up the examination of these transactions and the clearance of suspense accounts. The Commission is prepared to comply with the wishes of the external audit body concerning the presentation of the balances of suspense accounts in the balance sheet.

11.6. Examples of such items, contained in the Commission's balance sheet at 31 December 1978, are:

(a) an amount of 293 000 EUA, paid in 1973 for research activities in agriculture has not been charged as expenditure and has remained in the

[1] OJ No L 356, 31. 12. 1977, p. 1.

balance sheet under 'sundry advances' ever since. This item represents neither a recoverable advance nor an expense relating to a future financial year. It awaits 'regularization'. The Commission services involved are unable to explain why it has not been charged to an expenditure account;

(b) payments made for costs of housing are retained in the 'sundry advances' account until the precise amounts are known at final settlement. These precise amounts are charged to expenditure at final settlement which normally means a delay of six months. In the presentation of the balance sheet the annuality principle would be better served if the original payments were charged directly to expenditure and the small balancing adjustments booked later;

(c) analysis of the balance on the account 'advances on mission expenses — Brussels' showed that 199 items brought forward from 1977 were still uncleared at 31 December 1978. These items, together with most of the mission advances arising in 1978 itself, are neither assets at 31 December 1978 in the sense of recoverable advances nor accruals relating to 1979;

(d) the items 'sundry debtors' and 'sundry creditors' in the JRC-Ispra balance sheet contain amounts of 108 000 EUA and 6 000 EUA, respectively, which were paid or received by the Commission or by the other research centres on behalf of JRC-Ispra. Although all data were available within the accounting services these amounts were not brought to the 1978 expenditure or revenue accounts.

In this context, especially with regard to examples (a) and (c), it should be noted that Article 65 of the Financial Regulation prescribes that such advances should be settled 'at the latest during the financial year which follows the payment of the advance'.

Reply of the Commission to paragraph 11.6

(a) The amount of 293 000 EUA represents the total advances granted in 1973 to 12 research institutes in connection with four-year shared-cost research contracts in the field of classical swine fever and African swine fever. At that time, these advances were charged to a suspense account. They were to have been cleared in 1977, at the time of the final adjustment, and charged to the budget article concerned.

Meanwhile the advances in question have been finally charged to a budget article.

(b) These payments are charged to the 'sundry advances' account because they relate to leases entailing tenancy charges and it is necessary to split between several budget items amounts which are not known when the entries are made. Although, in general, adjustments are made in the same financial year, or else by charging against carry-overs, a procedure which does not infringe the annuality principle, the Commission will in future charge against the budget account at least the amount of rental proper.

The Financial Regulation does not in principle allow expenditure the final amount of which is not yet known to be charged against a budget article.

As regards the presentation of the balance in question in the balance sheet, the Commission would refer to the reply given to paragraphs 11.4 to 11.5.

(c) The clearance of advances on mission expenses by the Commission departments concerned is dependent on the promptness with which statements of expenses are submitted. As already explained in the reply to paragraphs 8.10 to 8.13 in Chapter 8, the Commission is doing all that it can to reduce the number of statements submitted late.

As regards the presentation in the balance sheet of the balance of the suspense account concerned, the Commission would refer to the reply given to paragraphs 11.4 to 11.5.

(d) The Commission departments will take account of the comments of the Court of Auditors at the closure of the financial year.

Remark of the Court on the reply of the Commission to paragraph 11.6 (b)

The Court wishes to underline that its only concern here is the presentation in the balance sheet.

11.7. Such errors may have been caused, at least in part, by the confusing practice of referring to the general accounts as 'ex budget accounts'. This is misleading in two respects. Firstly, it creates confusion with the real extra-budgetary operations, such as the common sickness fund, the restaurants, etc. Secondly, the purpose of the general accounts is not to

make provision for 'parking' expenditure and revenue items outside the budgetary accounting system, as the term 'ex budget' may imply.

While it may certainly be convenient to operate suspense accounts for the immediate recording of cash and bank movements in the double entry system, the Court considers that these accounts should not result in the balance sheet showing as assets items which constitute expenditure in the year or as liabilities items which constitute revenue in the year.

Reply of the Commission to paragraph 11.7

The Commission would refer to its reply to paragraphs 11.4 to 11.5.

11.8. Discrepancies between the present operation of the general accounts and the requirements of the Regulations are not confined to the nature of items which are included in the balance sheet. Certain assets and liabilities of the Communities are not accounted for in the general accounts at all and consequently do not figure in the balance sheet. For example:

(a) certain loans granted by and repayable to the Commission are not recorded in the general accounts and the amounts outstanding are not shown in the balance sheet, e.g.:

— loans granted to organizations in Member States for improving housing conditions of migrant workers,

— loans granted to EC staff for house-building;

(b) fixed assets and stocks (e.g. inventory and technical materials) are not accounted for in the general accounts, notwithstanding that Article 76 (3) of the implementing measures of the Financial Regulation provides that accounts for fixed assets and stocks shall be kept;

(c) in general, receivables and payables are not systematically recorded in the institutions' general accounts.

Reply of the Commission to paragraph 11.8

In view of the quantity and geographical spread of data to be taken into consideration, a balance sheet of the kind that the Court of Auditors has in mind in points (a) and (b) poses particularly difficult problems of internal organization which it would take some time to overcome. Also, extra staff would very probably be needed. The Commission is prepared to comply with the requests of the Court of Auditors subject to a careful examination of the extent of these problems.

As regards the recording of receivables and payables in the general accounts, the Commission is aware of this state of affairs, and is endeavouring to get to grips with the problem more effectively, from year to year.

THE BALANCE SHEET OF ASSETS AND LIABILITIES OF THE COMMUNITIES

11.9. In its report on the 1977 accounts, the Court made certain observations regarding the consolidated balance sheet drawn up by the Commission. The Court notes with satisfaction that the Commission this year has drawn up separate balance sheets for the Commission as an institution, and for the Communities as a whole, and that the Commission has made serious efforts to bring about improvements in the consolidation methods along the lines indicated by the Court. The Commission has taken steps to improve the uniformity of accounting procedures in the institutions, has combined corresponding categories of balance sheet items in drawing up the consolidated balance sheet, and has set about eliminating inter-institutional financial relationships. Although the following paragraphs make reservations on some points, they should be read in the general context of a welcome for the advances made. Their aim is to provide a contribution to the further improvement of the consolidated financial statements so that the obligations laid down in Articles 73 and 76 of the Financial Regulation can be best met.

11.10. Under Article 76 of the Financial Regulation, the Commission is required to draw up 'a balance sheet of the assets and liabilities of the Communities'. It follows that the consolidated balance sheet should include all assets and liabilities of all bodies that form an integral part of the European Communities, excluding internal financial relationships and non-Community assets and liabilities. The Court notes that the consolidated balance sheet at 31 December 1978:

(a) excludes the assets and liabilities of the European Coal and Steel Community;

(b) excludes the assets and liabilities of the restaurants and economats, but includes their current accounts with the institutions;

(c) excludes the assets and liabilities of the Economic and Social Committee, but includes its current account with the Council;

(d) includes the assets and liabilities of COST, although this does not form an integral part of the Communities (see also paragraph 1.24 of the Court's report for 1977).

Reply of the Commission to paragraph 11.10

As regards the inclusion of the assets and liabilities of the European Coal and Steel Community in the balance sheet of the Communities to be drawn up in accordance with Article 76 of the Financial Regulation, the Commission would refer to the general principles of the Financial Regulation, in particular the second paragraph of Article 1 which reads as follows:

'For the purposes of this Financial Regulation, the revenue and expenditure of the Communities shall comprise:

— *the administrative expenditure of the European Coal and Steel Community and the corresponding revenue,*

— .....

The abovementioned expenditure shall comprise that arising from the activities of the institutions.'

The present balance sheet of the Communities has been drawn up on the basis of these provisions.

The Commission is of the opinion that the Financial Regulation does not apply to the independently-run restaurants and staff shops (economats), and that their accounts with the institutions should be regarded as sundry debtors or creditors accounts. The Commission would also refer to the reply given to paragraphs 8.59 to 8.61 in Chapter 8.

As regards points (c) and (d), the Commission will review the situation in the light of the comments of the Court of Auditors.

11.11. In the consolidated balance sheet at 31 December 1978 the principle of line-by-line aggregation has been followed for broad categories of balance sheet items (main headings). Although this is a considerable improvement over previous practice, the result leaves room for further improvement. Firstly, for a better insight into the Communities' overall financial affairs, it is desirable to present the consolidated balance sheet in greater detail (other than by breakdown per institution), and particularly to subdivide the headings 'liquid assets', 'sundry debtors' and 'sundry creditors'. Secondly, the aggregation has been carried out without proper regard to classification differences between the individual balance sheets from which the consolidated balance sheet is drawn up. For example, the imprest funds of the Commission and the Council are included under 'liquid assets', whereas the imprest funds of Parliament (1 200 000 EUA) are included under 'sundry debtors'. The item 'payments pending' in the consolidated balance sheet represents only those of the Commission; those of the Council (710 000 EUA) and the Parliament (3 300 000 EUA) are included in 'sundry creditors'.

Reply of the Commission to paragraph 11.11

The Commission will endeavour to achieve a more complete harmonization of the various headings.

11.12. In the consolidated balance sheet at 31 December 1978 a start has been made towards the elimination of balances outstanding between institutions. Although the adoption of this principle constitutes a considerable improvement in consolidation methods, its practical application in the 1978 consolidation is not consistent. Several inter-institutional items remain in the consolidated balance sheet, viz.:

(a) a number of inter-institutional items appearing in the individual balance sheets have not been eliminated in the consolidation, e.g.:

— balances outstanding between the Office for Official Publications, the Commission and the other institutions,

— the item 'sundry debtors — institutions and delegations' (500 000 EUA) in the balance sheet of the Parliament contains several inter-institutional items; and

(b) inter-institutional items are included in the balances of various accounts in which transactions, both internal and external to the Communities, are recorded without distinguishing between them. In general, the accounts system does not provide for separate accounting for these two types of transactions. If internal financial relationships are to be completely eliminated from consolidated statements, the accounts system should provide for the identification and separate recording of inter-institutional transactions.

A specific problem in this context is created by the operation of 'suspense accounts for re-use', as prescribed in Article 22 of the Financial Regulation, in cases where transactions between institutions are

involved and the re-use reserve is either utilized or transferred to revenue in a subsequent year. In these cases consolidation leads inevitably to a shift of revenue and expenditure items between financial years.

Reply of the Commission to paragraph 11.12

The accounting departments of the different institutions are actively working towards the solution advocated by the Court of Auditors concerning the general problem of balances outstanding between institutions. As regards the comments concerning the suspense accounts for re-use, no easy solution has yet been found because there are technical difficulties concerning the relations between institutions.

11.13. Article 73 of the Financial Regulation provides that 'the Commission shall draw up (...) a revenue and expenditure account for the Communities' and gives a detailed specification of this account, which is in fact a set of tables. As with the balance sheet, these words imply that a consolidated revenue and expenditure account, aggregating all corresponding revenue and expenditure items of all the EC institutions, and eliminating inter-institutional transactions, should be drawn up derived from the individual revenue and expenditure accounts. At present only these individual revenue and expenditure accounts are published and no consolidated revenue and expenditure account for the whole of the Communities is drawn up, so that in fact the quoted provision is not complied with. The Court considers that, as a minimum, this provision could be met by drawing up a summary consolidated revenue and expenditure account. Such an account would show the main categories of revenue and expenditure derived from the individual revenue and expenditure accounts. This would, as with the balance sheet, call for a proper consolidation basis, i.e. uniform accounting systems, uniform classification criteria, and identification and separate recording of inter-institutional items for subsequent elimination in the consolidation process.

Reply of the Commission to paragraph 11.13

Articles 73 and 75 of the Financial Regulation provide for the revenue and expenditure account to be 'classified' in accordance with the budget nomenclature and for it to be submitted 'in the same form and following the same subdivision as the budget'. Article 75 also stipulates that the revenue and expenditure account 'shall cover all revenue and expenditure transactions relating to the preceding financial year for each institution'. However, to comply with the wishes of the Court of Auditors, the Commission could examine the possibility of grouping together Titles 1 and 2 in the revenue and expenditure account, while indicating, as for revenue, the breakdown of expenditure by institution at least for the main classes.

Remark of the Court on the reply of the Commission to paragraph 11.13

The production of a summary consolidated revenue and expenditure account would greatly increase understanding of the overall financial affairs of the Communities. This suggestion is compatible with the requirement of Article 73 of the Financial Regulation, and is not in conflict with the further breakdown by institution and according to the detailed budgetary nomenclature as required by Articles 73 and 75 of the Financial Régulation. It should, however, be implemented for the whole of the budget and should not be restricted to Titles 1 and 2.

ACCOUNTING FOR EXCHANGE DIFFERENCES

11.14. Currency translations pose a particular problem in the general accounts of the Communities. The accounts are kept in European units of account but have to incorporate numerous transactions in a variety of currencies, resulting in exchange differences. For sound financial reporting, as well as for sound financial management, it is important that these exchange gains and losses be identified, recorded and related to the proper period. In the financial year 1978 there was an additional complication, arising from the change, at 1 December 1978 from units of account to European units of account. This change made it necessary to revalue at 1 January 1978 the closing balances carried forward from 1977. The resulting net gain or loss was required, under Article 15 of Council Regulation (EEC, Euratom, ECSC) No 2891/77 [1], to be disclosed as a separate element of the 'balance of the year' for 1978.

11.15. The Commission calculated the net deficit arising from this operation as 45·1 MEUA, as reported on page 256 of the 'revenue and expenditure accounts and balance sheets, vol. II'. The Court wishes to draw attention to the following points arising from its examination of the figures:

(a) in the Commission's accounts 'payments pending' (i.e. amounts to be paid in the first 15 days of 1978 but charged to 1977, in accordance with Article 5 of the Financial Regulation) were revalued at

[1] OJ No L 336, 27. 12. 1977, p. 1.

1 January 1978 on the assumption that the whole balance was in terms of Belgian francs. This was not so and the adjustment (an exchange loss calculated as 58·6 MEUA) thus contains a substantial error, which became apparent in the first weeks of 1978, when, on actual payment, a gain of 98·7 MEUA on exchange difference was realized on this item. This latter amount may be slightly influenced by exchange variations during this short period, but the biggest part of it represents the error in the calculation of the exchange loss of 58·6 MEUA;

(b) the items 'Advances — EAGGF, Guarantee Section' and 'Advances — food aid' were revalued on the basis of exchange rates as at 18 November 1977, instead of the rates at 2 January 1978 which were applied to other balance sheet items. In consequence, these amounts included at 1 January 1978 an exchange loss calculated at 34·5 MEUA which should have been taken into the conversion adjustment. The valuation of EAGGF and food aid balances constitutes a special problem which is discussed in paragraph 11.17;

(c) the balance of 'sums outstanding or received in excess (own resources)' was not revalued although this amount contained at 1 January 1978 an exchange loss calculated at 10·0 MEUA;

(d) the balance of 'sums outstanding (contributions)' for EAGGF, Guidance Section was not revalued, although this amount contained at 1 January 1978 an exchange gain calculated at 9·4 MEUA;

(e) the balances of 'Clearing — EAGGF, Guarantee Section, for financial years prior to 1 January 1971' and 'Resolutions of 21 April 1970 and 30 May 1972 — EAGGF, Guarantee Section' were not revalued, although they contained an unrealized exchange difference. The final settlement of these amounts took place during 1978 at 31 December 1970 exchange rates and the Commission, acting as a clearing institute, realized a loss on exchange. Since it was apparent that these old amounts had to be settled by the Commission at actual parities, the unrealized loss on exchange differences of 18·6 MEUA at 1 January 1978 should have been included in the conversion operation from u.a. to EUA.

On the evidence of the examples quoted above the Court concludes that the effect of the revaluation at 1 January 1978 is substantially mis-stated. The amount calculated by the Commission, and reported, in accordance with Article 15 of Council Regulation (EEC, Euratom, ECSC) No 2891/77, on page 256 of the revenue and expenditure account for 1978, as the result of the conversion from u.a. to EUA, is not correct. Considerable differences have been established by the Court on various elements composing this amount. These differences are included in the normal account for exchange differences so that the overall total amount of exchange differences accounted for remained unaffected by these erroneous calculations.

Reply of the Commission to paragraph 11.15

As, in accordance with Article 71 of the Financial Regulation of 25 April 1973, the Commission kept its accounts in Belgian francs until 31 December 1977, the revaluation provided for in Article 15 of Council Regulation (EEC, Euratom, ECSC) No 2891/77 was carried out on the basis of balances expressed in Belgian francs. The Commission opted for this solution as it seemed to be the most rational working approach. The Commission is aware that this procedure meant a temporal shift of certain exchange-rate differences with the effect indicated by the Court of Auditors.

As regard the 'Advances — EAGGF, Guarantee Section' and the 'Advances — food aid', the Commission adopted the dates specified in the draft Regulation on the procedure for applying the EUA to the legal acts adopted by the Community institutions.

Remark of the Court on the reply of the Commission to paragraph 11.15

The Court notes that the first paragraph of the Commission's reply refers to point (a) of paragraph 15 of the Court's observations, and the second one to point (b).

No comment has been made on points (c), (d) and (e).

As to the reply to point (a) the Court is of the opinion that a rational working approach should not lead to errors of such magnitude as 98·7 MEUA.

11.16. Although the specific form of the revaluation of the entries in the opening balance sheet was peculiar to 1978, the problem of valuing balance sheet entries by reference to exchange rates is a more general one. For a correct view of the financial affairs of the Communities at the date of the balance sheet, exchange gains and losses then existing should be taken into account. It is to be noted, however, that the Commission's balance sheet

at 31 December 1978 is drawn up on the basis of various exchange rates, viz.:

— 1 December 1978 for cash and bank items and some similar items, such as imprest funds,

— 20 November 1978 for advances, EAGGF, Guarantee Section and food aid,

— for other items, the rate of exchange at the date on which the item was first booked,

— old u.a. rates for item 'sums outstanding (contributions), EAGGF, Guidance Section'.

The Court is of the opinion that for the purpose of drawing up the balance sheet, actual exchange rates at balance sheet date should be applied, and thus concludes that the figures in the 31 December 1978 balance sheet are wrongly stated in this respect.

Reply of the Commission to paragraph 11.16

The Commission will take account of the comments of the Court of Auditors when the next balance sheet is drawn up. However, it would emphasize that its approach with regard to the closure of the financial year 1978 was more suited to the circumstances, in view of the considerable amount of work involved in changing over from the unit of account (u.a.) to the European unit of account (EUA) and the short deadline set by the Financial Regulation for drawing up the balance sheet.

11.17. The practice of valuing EAGGF, Guarantee Section and food-aid advances at 20 November exchange rates originates in the system of accounting for EAGGF, Guarantee Section and food aid expenditure. Under this system, which up to the present lacks a legal basis, actual expenditure of a certain month is booked at the exchange rates applied to the advances by which it was financed, i.e. the exchange rates of in general two months earlier, at the 20th of that month. The Court notes that, apart from what is said in paragraph 11.16, under this procedure exchange gains and losses are not accounted for as such but are included in expenditure.

THE EXAMINATION OF INTERNAL CONTROL

11.18. In its report for 1977 the Court pointed out that, in forming a judgement on reported financial information, it attaches great importance to an assessment of the control measures built into the system for ensuring the accuracy and reliability of accounting data. The internal control features of the Commission's general accounting system, concerning the organizational, procedural and technical details of daily operations, could not be assessed at that time, because they were not documented. The Court, therefore, took steps to have a description drawn up of the Commission's general accounting system, with particular emphasis on internal control. A first draft of such a systems description was ready at the end of July 1978, but the Commission took nine months to produce its comments on this document. In the absence of confirmation from the Commission that the systems description drawn up was accurate no progress could be made until the beginning of May 1979, when the Court received detailed comments from the Commission. It is now possible to use the systems description as a basis for the assessment of the quality of internal control.

Reply of the Commission to paragraph 11.18

The Commission does not dispute the facts, but would emphasize that the departments concerned are overworked.

11.19. In its report for 1977 the Court did, however, draw attention to certain aspects of the internal control of the Commission's accounting services about which it was concerned. In its 1978 audit the Court found evidence which confirmed these points, but also found indications that a more general problem exists in the way various Commission services work together from an internal control point of view. Although the separation of duties between the authorizing officer, financial controller and accounting officer is one of the fundamental principles of internal control in the Communities, it appears that this control is not always effective. The following four examples show the restrictive interpretation of control responsibilities and the uncoordinated manner in which controls are carried out:

(a) an amount of 293 000 EUA was spent in 1973 on research activities in agriculture and charged to a suspense account (see paragraphs 11.6 (a) and 11.7). The Commission services involved are now unable to explain this matter or to coordinate their efforts to find an adequate solution;

(b) the account 'advances on mission expenses' includes 199 items which date back to before 1 January 1978 and had not been cleared at 31 December 1978. Although they are included in lists of items making up the balance of this account, which are sent periodically by the accounting department to the authorizing officer, no follow-up action has been taken to clear these items from suspense ;

(c) two advances of salaries granted in June 1978 to staff of the Tokyo office were still outstanding at the year-end, and were thus included in the balance of the salary advance account. In the conversion to EUA a decimal point error was made, inflating the amounts by a factor of 10. This error, of 57 000 EUA, remained unnoticed in all subsequent stages of processing. A control procedure using overall checks on currency conversions would have revealed this error, as would a simple analysis of the periodical listing of items outstanding on this account;

(d) an amount of 58 000 EUA, representing a gain on exchange, is incorrectly included in the balance of the account 'advances on salaries'. This item arises from payment of salaries by the Commission on behalf of JRC, which itself should have been recorded in a separate account.

These examples indicate that the control procedures of the various services need coordinating to achieve a comprehensive approach to internal control. Furthermore, the last two examples especially underline the need for setting up systems and procedures in such a way that errors are automatically revealed.

Moreover, external control on currency conversion is seriously hampered by the imperfect state of the underlying documents, which lack authorizations, references and details of calculations.

Reply of the Commission to paragraph 11.19

The Commission is endeavouring to improve its internal controls and will pay particular attention to the general problems raised by the Court of Auditors.

With regard to points (a) and (b), the Commission would refer to the reply given to paragraph 11.6 (a) and (c).

As regards points (c) and (d), the Commission would emphasize that the errors discovered did not have any financial implications.

11.20. A specific point of internal control concerns the system of accounting for temporary imprest funds. These advance funds, set up for special events, such as congresses, large missions, etc., are accounted for by the Commission as 'sundry advances'. For better control of these funds it would be preferable to record them in a separate account. Thus, errors, such as the crediting of reimbursements of unspent balances to other advance accounts, could be more easily detected, and timely clearance of suspense items assisted.

Reply of the Commission to paragraph 11.20

As affirmed in paragraphs 11.4 to 11.7, the Commission has already taken steps to improve the analysis and clearance of the accounts.

The Commission is able to comply with the suggestions of the Court of Auditors.

CONCLUSION

11.21. The Court concludes that:

(a) the general accounts of the institutions, as operated at present, notably those of the Commission, do not permit the ascertainment of the institution's situation in respect of assets and liabilities, as provided for in Article 76 of the implementing measures of the Financial Regulation;

(b) the balance sheet of assets and liabilities of the Communities, as required by Article 76 of the Financial Regulation, has been drawn up in an incomplete manner and still falls short of meeting the requirements of proper consolidation;

(c) the accounting for exchange differences shows serious shortcomings which lead to distortions in financial reporting and have led in 1978 to a material mis-statement in calculating the result of the conversion from u.a. to EUA at 1 January 1978;

(d) the overall effectiveness of internal controls is a matter of concern.

Furthermore, the Court considers that the published financial statements of the Communities do not enable the reader to gain a clear insight into the Communities' financial affairs since they lack an explanation of the accounting principles applied and other explanatory notes needed for a full understanding of the figures presented. It would also be informative, and in compliance with generally accepted accounting principles, if financial statements were to show the corresponding figures of the preceding year, with explanatory notes in cases where the basis of the figures has changed.

Reply of the Commission to paragraph 11.21

For the reasons given above, the Commission is not entirely in agreement with the conclusions of the Court of Auditors.

11.22. In view of the above the Court is obliged to repeat its conclusion of last year, that the consolidated balance sheet does not adequately reflect the assets and liabilities of the Communities, as provided in Article 76 of the Financial Regulation.

The Court also notes that a revenue and expenditure account for the whole of the Communities, as prescribed in Article 73 of the Financial Regulation, is not drawn up, whereas it would be highly desirable to show at least a summary revenue and expenditure account for the Communities, presenting revenue and expenditure in a meaningful break-down.

Reply of the Commission to paragraph 11.22

As regards the balance sheet, the Commission would emphasize that the existing presentation is the end-product of an evolving process, and that it is willing to comply with the wishes of the external audit body, as pointed out in the above replies. As regards the comments concerning the revenue and expenditure account, the Commission would refer the Court to the provisions of Article 1, the first paragraph of Article 73 and Article 75 of the Financial Regulation, while reaffirming its willingness to make any improvements which are compatible with the provisions of the Financial Regulation and the capacities of the Commission's departments.

CHAPTER 12 — REVENUE

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DEVELOPMENTS IN 1978

12.1. The system of financing the budget of the Communities was outlined in paragraphs 12.1 to 12.9 of Part I of the Court's report for 1977. In 1978 there were certain important developments.

12.2. It was originally intended that financial contributions would cease to be made for 1978 and that own resources would include value added tax. By 31 December 1977, however, only two of the nine Member States had put themselves in a position to give effect to that intention. In these circumstances it was necessary to apply Article 4 (3) of the Council Decision of 21 April 1970 and to continue with a system of supplementing agricultural levies and customs duties by financial contributions based on gross national product (GNP).

Amounts due from the Member States — Article 131 of the Act of Accession

12.3. Under the provisions of Article 4 of the Council Decision of 21 April 1970, the six original Member States were obliged to pay in 1978:

(a) the full amount of agricultural levies and customs duties appropriate to the year; and

(b) GNP-based financial contributions as laid down in the budget.

The calculations of the payments due from Denmark, Ireland and the United Kingdom were to start from the same basis but the sums actually payable were to have regard to Article 131 of the Act of Accession 1972. For 1978 that Article provides that the increase in the relative share of each of the three new Member States is not to exceed two fifths of the difference between the relative share due from it in 1977 and the relative share it would have had to pay for that year if that share had been calculated in accordance with the arrangements laid down for the six original Member States from 1978 by the Decision of 21 April 1970. (There is a similar provision in Article 131 about the year 1979.) Clearly the grant of any relief under Article 131, taken by itself, would reduce the total income of the Communities and possibly produce a deficit as compared with expenditure. Article 132 provides, therefore, that the amount of the shortfall in income resulting from the application of Article 131 should be apportioned among the six original Member States. The effect of applying

Articles 131 and 132 is therefore to reduce the amounts payable by the new Member States but not to reduce the total sum due from the nine.

The introduction of the EUA

12.4. Up to the end of 1977 the Community budget was drawn up in IMF units of account. The introduction of the EUA on 1 January 1978 complicated the Article 131 issue considerably. The IMF unit of account and the EUA produced different relative shares for the same amount of national currency because they are calculated on a different basis. The IMF unit exaggerated the value of depreciated currencies such as the pound sterling and underrated the value of appreciated currencies such as the German mark. The EUA, however, is based on up-to-date exchange rates. In IMF unit terms, for example, Germany's share of the 1977 budget was 25·84 % and the United Kingdom's 19·24 %. If the calculation for that year had been made in EUA terms the corresponding percentages would have been 35·60 % and 12·22 %.

12.5. The Commission put forward the view that Article 131 was intended to ensure a steady progression in the financial effort of the three States. This meant that the increases provided for in that Article had to be based on the real contribution in national currencies made by those States. This could only be achieved by comparing like with like: 1978 could only be compared with 1977 in terms of the same unit, whether IMF units of account or EUA. Most of the delegations among the original Member States disagreed on the grounds that Article 131 was expressed solely in terms of relative shares and made no provision for the effect of a change in the unit of account. These delegations argued that no relief was due to the Member States because their shares in the 1978 budget expressed in EUA were estimated to be less than their shares in the 1977 budget expressed in IMF units of account. Consequently there would be no qualifying increase in 1978 compared with 1977 to which the Article 131 limitation could be applied.

12.6. At its meeting of 6 December 1977, the European Council considered this problem. It agreed that the budget would be adopted and implemented without regard to Article 131 and that such financial compensations for 1978 and 1979 as were necessary would be made outside the framework of the budget. The Commission was to make the necessary calculations for the amount due from each Member State. The first stage was that each Member State chose the interpretation of Article 131 which was most advantageous to it. Clearly the initial calculations based on these choices would show contributions which, in the aggregate, fell short of the total income in the budget. The amount of this shortfall was then to be apportioned among the nine Member States. To determine its share, each Member State was allowed to choose one scale from a given list of four. The total of the shares so chosen would be less than the shortfall identified and the Council of Ministers subsequently decided that this further, though smaller, deficit should be covered by the Member States in proportion to the contribution each had made in the preceding clearing operation, so that the entire shortfall would be covered. At no time did the Council enact these decisions in any legislation.

12.7. Following these instructions from the Council, the Commission adopted a Decision [1] concerning the financial adjustments to be carried out in connection with Article 131. This requires the Commission to act as a clearing house and provides that the consequences of the calculations shall be annexed to the accounts for the budgetary year concerned but it does not give any details about the basis of the calculations to be made.

12.8. In accordance with the agreement reached, Member States paid over own resources and financial contributions as set out in Table 1 of Volume II of the accounts. This table is summarized in Table 67.

[1] OJ No L 152, 8. 6. 1978, p. 21.

Table 67. Breakdown of own resources and financial contributions by Member State

Actual 1978 in 1 000 EUA (i.e. before application of Article 131)

Member State	Own resources	Financial contributions	Total
Belgium	502 311	239 791	742 102
Denmark	137 042	138 181	275 223
Germany	1 811 386	1 716 055	3 527 441
France	909 204	1 275 446	2 184 650
Ireland	55 439	32 231	87 670
Italy	954 859	700 253	1 655 112
Luxembourg	3 712	9 539	13 251
Netherlands	872 810	320 428	1 193 238
United Kingdom	1 427 457	897 741	2 325 198
Total	6 674 220	5 329 665	12 003 885

12.9. The results of the Commission's Article 131 calculations are summarized in an Annex set out on page 16 of Volume II of the accounts. The Court has examined the calculations made by the Commission. In identifying the shortfall and apportioning it among the Member States the Commission appears to have followed the agreement reached by the European Council. The effect of the transactions between the Member States arising from these calculations is to increase or decrease, as appropriate, the amounts shown in the final column of Table 67 as follows:

Table 68. Article 131: clearing outside the budget

(1 000 EUA)

Member State	Commission's interpretation of Article 131 (see paragraph 12.5) Repayments due to Member States	Settlement		
		Amount borne by each Member State	Amount paid by Member States	Amount received by Member States
Belgium	—	34 130	34 130	—
Denmark (1)	—	—	—	—
Germany	—	210 210	210 210	—
France	—	130 323	130 323	—
Ireland	22 454	4 069	—	18 385
Italy	—	79 408	79 408	—
Luxembourg	—	862	862	—
Netherlands	—	44 892	44 892	—
United Kingdom	590 721	109 281	—	481 440
Total	613 175	613 175	499 825	499 825

(1) Unlike Ireland and the United Kingdom, Denmark's share of the budget, before application of Article 131, was below the share calculated on either of the interpretations considered.

12.10. The Court recognizes that the introduction of the EUA on 1 January 1978 made the strict application of Articles 131 and 132 very difficult and that some compromise solution had to be found. The Court does not criticize the nature of the solution but feels that:

(a) the decision to carry out the financial compensation outside the budget so that the consequences are shown only in a summary annexed to the accounts, not on the face of the accounts themselves, diminishes the clarity which should be sought in presenting financial information;

(b) the absence of published decisions by either the Council or the Commission setting out in detail the rules agreed upon for the application of Article 131 is a serious matter since it leaves the Court and the discharge authority unclear as to the basis of the transactions carried out.

12.11. In the light of the foregoing paragraphs, the Court is unable to report that all revenue has been paid to the Community in a legal manner, inasmuch as Article 131 has not been observed. Furthermore, the absence of detailed rules implementing the compromise decision make it impossible for the Court to satisfy itself fully on the degree of compliance with that decision.

Own resources established in November and December 1977

12.12. The system of accounting for own resources was amended for the year 1978 and subsequent years by Articles 5 and 108 of the Financial Regulation of 21 December 1977 (1). Up to 1977 the basis was to account for own resources as income accruing to the Communities by reference to amounts established by each Member State in the relevant calendar year. From 1978 the basis became the amount paid to the Commission's account in the Member State in the calendar year. The due date for payment for all own resources except VAT is about two months after establishment takes place (2). It follows that the income of the Communities for any year after 1977 will include the relevant own resources established in November and December of the previous year plus the equivalent own resources established in January to October of the year itself.

12.13. This gave rise to a problem for the year in which the change took place. In accordance with the Financial Regulation, the own resources for November and December 1977 were treated by the Commission as income for 1978. It followed that the own resources for 1977 were for 10 months only (see paragraphs 12.13 and 12.14 of Part I of the Court's Report for 1977). The financial controller took the view that, despite the accounting treatment assigning the own resources for the two months in question to 1978, as far as the new Member States were concerned the relevant sums were subject to the provisions of Article 130 of the Act of Accession as being own resources for 1977 (i.e. that they would be payable only to the extent of 92 %). This view, had it been accepted, would have involved an adjustment to the amounts due from the United Kingdom, Denmark and Ireland. The Commission did not accept this view and overruled the financial controller under Article 35 of the Financial Regulation.

12.14. The Court, while recognizing that the legislation gives no clear guidance on this subject, believes the view taken by the Commission to be reasonable. The Commission's view also has the advantage of avoiding possible repercussions in future years.

POINTS ARISING FROM THE ACCOUNTS

12.15. Total budgetary revenue of the Communities for the year 1978 amounted to 12 181·7 MEUA. The main headings, together with the estimated revenue after adoption of amending and supplementary budget No 2 are set out in the table below:

Table 69. Total revenue 1978

(MEUA)

	Estimate	Actual
Own resources:		
Customs duties	4 833·0	4 390·9
Agricultural levies	1 686·1	1 872·7
Sugar levies	376·9	410·6
Financial contributions	5 330·8	5 329·7
Miscellaneous revenue (including ECSC and Euratom contributions)	135·9	177·8
Total	12 362·7	12 181·7

Statistical basis for financial contributions

12.16. The Court examined the statistical basis from which the financial contributions were derived, viz.: for

(1) OJ No L 356, 31. 12. 1977, p. 1.
(2) Article 7 of Council Regulation (EEC, Euratom, ECSC) No 2891/77: OJ No L 336, 27. 12. 1977, p. 1.

each Member State, the average of its gross national product for the years 1973, 1974 and 1975. The GNP figures for this purpose are compiled by the Statistical Office of the European Communities on the basis of figures supplied by the Member States. The calculations made in arriving at the GNP shares and hence at the financial contributions were based on figures available when amending and supplementary budget No 2 for 1978 was drawn up. Since then the statistical aggregates for the base years in question have been the subject of revisions for all the Member States. In the case of three Member States these revisions are substantial and had they been taken into account the contributions of the three States involved would have been significantly increased. The countries concerned together with the estimated increase in their average percentage share of GNP are:

— Luxembourg whose share would have risen by approximately 16 %,

— Denmark, whose share would have risen by approximately 4 %,

— Italy, whose share would have risen by an amount which has yet to be officially determined but which is likely to be of the order of 7 to 9 %.

It follows that the shares of the other Member States would have been correspondingly lower.

12.17. In providing that the base years to be used should be the first three years in the five-year period preceding the financial year in question, Council Regulation (EEC, Euratom, ECSC) No 2891/77 goes some way towards ensuring that the figures used are reasonably stable. It gives no guidance, however, in relation to corrections which come to light outside the five-year period. Since it is unclear what action should follow the establishment of such corrections, the Court asks the Commission for its comments.

Reply of the Commission to paragraphs 12.16 and 12.17

Following the Decision of 21 April 1970 establishing own resources and the first implementing Regulation (EEC, Euratom, ECSC) No 2/71 the question was discussed by the Council and it was agreed to take into consideration the statistics available before adoption of the budget; it was also decided that the calculation of financial contributions would not be changed even if the statistics were subsequently revised.

Application of the EUA to financial contributions

12.18. Under Article 30 of the Financial Regulation of 21 December 1977, financial contributions were to be expressed in EUA and, for the purpose of their payment each month to the Communities, were converted into the respective national currencies on the basis of the conversion rates for the first working day after the 15th day of the preceding month. For accounting purposes, however, the payments so made are reconverted into EUA using the latest rate quoted on the first day of the month in which payment is due (Article 9 (3) of Council Regulation (EEC, Euratom, ECSC) No 2891/77). As a result of the 15 or so days between the two dates at which conversions are to be made, the value in EUA entered into the records can be different from the sum originally demanded — either greater or less depending upon whether the relevant national currency appreciated or depreciated in relation to the EUA during the two-week period.

12.19. As a result of this, for the year 1978 there was a net difference of 1·1 MEUA between the sum provided for in the budget and the actual contributions booked in EUA. This net difference was a composite of the variations in the individual national contributions which are set out below:

Table 70. Application of the EUA to financial contributions

(MEUA)

Member State	Budget	Out-turn
Belgium	239·7	239·8
Denmark	137·9	138·2
Germany	1 713·2	1 716·1
France	1 273·3	1 275·5
Ireland	32·3	32·2
Italy	703·7	700·3
Luxembourg	9·5	9·5
Netherlands	320·0	320·4
United Kingdom	901·2	897·7
Total	5 330·8	5 329·7

12.20. For 1978 these differences were, for the most part, cancelled by the calculations for Article 131 (paragraphs 12.3 to 12.11) but so long as financial contributions are translated under the current Regulations from national currencies into EUA there is the prospect of variations of this kind which will not be eliminated and will remain part of the out-turn. The net

result may of course be either an increase or a decrease as compared with the figures in the budget depending on the manner in which the relevant currencies move in relation to the EUA. The Court is of the opinion that this situation is anomalous and could be avoided if contributions were made by Member States at the actual exchange rate obtaining on the day on which the contribution is due.

Reply of the Commission to paragraphs 12.18 to 12.20

The solution proposed by the Court of Auditors in point 20 does not take sufficient consideration of the time limit of 15 days provided for by Article 30 of the Financial Regulation and introduced at the request of the Member States whose national audit bodies insisted that the order of payment to the Community budget should be approved by them before being executed.

As a result, the amount shown for payment should correspond exactly to the sum paid. This would not be the case were the exchange rate applied on the day on which the payment was executed which, by definition, is later than the date of the examination by the control bodies.

Isoglucose production levy

12.21. Included in the accounts for 1978 as own resources is a sum of approximately 4·4 MEUA in respect of the isoglucose production levy. The first payments on account of the levy were due to be made available to the Commission in January 1978. Following appeals by certain producers the Court of Justice ruled that the measure imposing the levy (1) was invalid. Pending the outcome of these proceedings some Member States had already suspended collection of the levy, so that the receipts recorded do not reflect the total production of isoglucose during the relevant period. The question of the reimbursement of the 4·4 MEUA already paid remains to be decided. The Court asked:

(a) whether a decision had yet been taken on reimbursement; and

(b) what steps had been taken to remedy the deficiency in the original Regulation pointed out by the Court of Justice.

(1) Title II of Council Regulation (EEC) No 1111/77 (OJ No L 134, 28. 5. 1977, p. 4).

Reply of the Commission to paragraph 12.21

A new isoglucose Regulation (EEC) No 1293/79 was approved on 25 June 1979. Article 2 of this Regulation states that the provisions of Title II of Regulation (EEC) No 1111/77 are repealed with effect from 1 July 1977.

This provision is tantamount to wiping the slate clean as regards the payments due from the Member States. The reimbursements will be made as the administrative or legal decisions which may arise in each case establish the right of the taxable person — now the creditor — to reimbursement.

A negative establishment could then be applied.

The new Regulation creates a new system based on the isoglucose production quotas, similar to that now existing for sugar.

This solution is entirely in keeping with the suggestions made by the Court of Justice in its Judgment outlining the inadequacies of Regulation (EEC) No 1111/77.

POINTS ARISING FROM ON-THE-SPOT AUDITS

12.22. The main object of the visits paid to Member States in connection with the 1978 accounts (including visits in which an official of the Court accompanied officials of the Commission) was to review the nature and quality of the systems of establishing own resources, particularly customs duties. The visits were therefore, for the most part, to seaports or other places where the customs administrations are active.

12.23. These administrations of the Member States have, for the most part, existed for very many years and have evolved and refined their systems to handle a number of other matters besides customs duties — e.g. collection of excise duties and VAT, health and similar controls. The assessment, collection, accounting and surveillance of customs duties are integrated into the same general system as these other matters and the fact that the customs duties are destined to pass to the Communities does not affect the diligence with which they are collected. There is a common interest between the Member State and the Communities to see that the machinery works efficiently. Where the Court found weaknesses to exist they derive, for the most part, from the lack of consistency and harmony between the Member States rather than from inefficiencies within

them individually. In paragraphs 12.24 to 12.30 which follow, examples are given which illustrate this general problem of lack of harmonization.

Physical examination of goods

12.24. The lack of harmonization between Member States is clearly shown by the differing practices concerning the physical examination of goods declared for customs purposes. On the evidence of our on-the-spot audits, they varied from a virtual 100 % examination at the one extreme to none at all at the other. The most common method was to make a percentage check, the selection being on a random basis.

12.25. It is, of course, accepted that physical examination is only one form of control, and that others such as checks on documents, customs audits of the accounts of importers, etc. are also employed. Nevertheless no amount of documentary examination will ensure that goods included in a consignment actually conform with the description, quantity and quality shown in the importer's declaration.

12.26. The Commission has not hitherto attempted to set minimum standards of physical examination or to issue guidelines. The Court believes that, given the Community interests involved, it is necessary for the Commission to set up arrangements to determine the level of examination which is regarded as the minimum to assure efficient collection of customs duties and thereafter to seek the adherence of all Member States to that standard.

Reply of the Commission to paragraphs 12.24 to 12.26

The Commission is aware that the practices concerning the physical examination of goods declared for customs purposes vary considerably from one Member State to another. This is largely due to the differing natures of the administrative structures. The better equipped a customs administration is to examine an undertaking's records, the more likely it is to conduct examinations of this type, either in addition to or instead of physical examination. Furthermore, it would not be appropriate to draw up Community standards for the frequency of the physical examinations to be conducted by the customs offices.

In general, the Commission feels that the need for a steady traffic flow dictates that customs activities should gradually shift to the auditing of accounts. This tendency is one of the main features of simplified procedures. Since, however, physical inspections are still most useful, any simplified procedure regulated by Community law is designed to allow the customs to conduct physical examinations whenever they consider them necessary.

In order to encourage application of Community law in conditions of uniformity and optimum effectiveness, the Commission is proposing a detailed study, in conjunction with the representatives of the Member States, of the conditions in which the examinations are currently conducted.

The Commission will assess the advisability of Community action in this sector in the light of the findings of this study.

Valuation problems

12.27. Since all but a small part of the Common Customs Tariff is on an *ad valorem* basis, it is important that the valuation of goods imported from third countries is on a sound basis. In the three following paragraphs the Court draws attention to issues suggesting that there is room for improvement in this area.

12.28. The valuation of goods for customs purposes is the subject of a number of Community provisions, the basic one being Council Regulation (EEC) No 803/68 (1). One of the chief instruments of control is a declaration of value to be made on the occasion of each importation (subject to certain exceptions). This declaration is in a standard form laid down in Commission Regulation (EEC) No 375/69 (2). It is an important step towards the common approach mentioned in paragraph 12.23 that this Regulation should be applied consistently and uniformly. At one large port visited by the Court's officials, the declaration had not been in general use and although corrective measures were taken shortly before their arrival, it is a matter of concern that the defect had remained undetected for so long. Steps have been taken to bring the matter to the attention of the Member State concerned so that, if the Commission Regulation is not being observed at other ports, etc. remedial action may be taken.

(1) OJ No L 148, 28. 6. 1968, p. 6.
(2) OJ No L 52, 3. 3. 1969, p. 1.

Reply of the Commission to paragraph 12.28

Shortcomings in regard to the customs valuation declaration are discovered from time to time and are always looked on in a serious light. The Commission, on the basis of the comment of the Court of Auditors, will address a letter to the customs service of each Member State concerning the matter.

12.29. If the invoiced price of goods is less than their open market price, because, for example, there is a shareholding or similar relationship between the seller and the buyer, the value shown must be adjusted to the market price for the purpose of calculating the correct amount of customs duty to be paid. Adjustments of this kind are normally considered by a central valuation unit in each Member State and the results communicated to the various ports, etc. within the Member State. There is thus a means of obtaining consistency at national level. Furthermore, the Valuation Committee, meeting under the auspices of the Customs Union in Brussels, provides at Community level a further means of coordination. Nevertheless, the Court discovered instances in which the level of adjustments for apparently similar goods fixed by national valuation units differed significantly as between two Member States, and the Valuation Committee had not been called on to reconcile these differences. The impact of variations of this kind is particularly unhappy if a parent company in a third country is exporting to subsidiary companies in Member States which have substantially varying amounts of adjustment. The Court accepts that there may be reasons why adjustments should not be by identical amounts, but there is no evidence to suggest that these matters are being systematically examined. The Court suggests that the Commission should consider the setting up of a central clearing house to deal at least with cases affecting more than one Member State.

Reply of the Commission to paragraph 12.29

The suggested 'central clearing house' would be needed, indeed, but this body would have an annual workload of many thousands of cases and would require a large staff of high quality. Also, present procedure by way of a Community act created through Committee and Commission action would be unsuitable — the central clearing house would have to be armed with powers of decision akin to those obtaining in a national civil service. There would then be the question of the legal status of such decisions — to whom could an appeal against them be made?

A new valuation system agreed in the multilateral trade negotiations will be introduced by the Community on 1 July 1980. The particular problem of widely-varying adjustments to invoices in related-party cases will disappear with the old system. Indeed, one of the aims of the new valuation code was to abolish the scope for arbitrariness by customs officials which was inherent in the old system and which was at the root of the particular problem to which the Court has drawn attention. One cannot say, however, that the new system will ensure complete consistency of valuation treatment throughout the Community. The introduction of a new valuation system, negotiated by the Community as a whole, will render consistency of valuation treatment an imperative necessity.

A solution to the problem at reasonable cost is not readily apparent but it is a matter which will be kept under constant review.

12.30. Certain produce is commonly delivered for sale on consignment: i.e. goods remain the property of the seller until sold by the importer to a third party. In such cases, the value at the time of importation is not easily ascertainable in the absence of an invoice. A series of Commission Regulations provides for the application of Community-wide standard average values to be fixed for such goods by the Commission during the importing season. These values are derived from the actual proceeds of sales made by importers to wholesalers at various marketing centres in the Member States during the importing season and are updated every fortnight. Standard average values apply even in cases where a valid invoice exists at the time of importation. One case covered by Commission Regulation (EEC) No 1641/75 (1) (apples and pears) was noted in which the invoice price of a shipment was nearly double the standard value on which duty was paid. The Court can see no reason why the Regulations should not provide for the application of the invoice price where an invoice exists and there is no reason to doubt its authenticity.

Reply of the Commission to paragraph 12.30

The goods to which the standard average values system applies (citrus fruits, apples and pears) are usually imported on consignment and firm invoiced prices at import are the exception.

A standard average value is based on Community market prices in a given fortnight and weighted by reference to the quantity imported into each Member State in the course of a particular season. This weighted

(1) OJ No L 165, 28. 6. 1975, p. 45.

figure for the whole Community cannot validly be compared with an invoice included in an individual customs entry at a particular port.

It is doubtful whether the system of standard average values could be justified at all if the customs or the importer could choose between the standard average value and an invoice price. If such a possibility existed, one would have to decide whether the standard average value should be regarded as a minimum or a maximum value. One would also have to look again at the weighting (for market price plus quantity imported) procedure and consider whether goods cleared against invoices should in some manner be taken out of the balance. It is not clear how this could be done as the fortnights for sales and customs clearance are different.

When the new valuation system is introduced every effort will be made to act upon the Court of Auditors' suggestions.

Duties on imports not accounted for as own resources

12.31. One of the basic principles of the common market is the application of a common external tariff to goods imported from third countries. The product of these duties should accrue in its entirety to the Community as own resources. Any deviation from these principles, however slight, calls for close examination with a view to establishing its conformity with Treaty obligations. Two instances which came to notice during on-the-spot audits are set out below. They illustrate different aspects of this basic principle: in the first case the duty itself is not in question but rather whether the proceeds should accrue as own resources. In the second the question is whether the duty is compatible with the EEC Treaty.

Anti-dumping duties in the UK

12.32. Certain anti-dumping duties, which had been imposed by the UK before accession, and which were continued in force under Regulation (EEC) No 1411/77 [1], are not being paid over to the Communities, apparently on the grounds that they do not constitute own resources within the meaning of the Decision of 21 April 1970. Although the amount involved is only of the order of 100 000 EUA a year, the Court felt that it was important to clarify the issues and wrote to the Commission asking for its views.

[1] OJ No L 160, 30. 6. 1977, p. 4.

Reply of the Commission to paragraph 12.32

The question raised by the Court of Auditors is currently being examined by the Commission; the Court will be informed of the results of this examination as soon as possible.

Stamp duty in France

12.33. It was observed that in France a national stamp duty is applied to each declaration involving a payment of import or export duty or tax. The duty, at the rate of 2 % of the amount of duty or tax is levied technically on the receipt or discharge which forms part of every declaration. The practical effect of this is to subject the rates of duty set out in the Common Customs Tariff to a surcharge which has no obvious basis in Community law. On a practical level, it can hardly be justified as a contribution towards costs of administration since Member States are already reimbursed 10 % of the duties and levies the collect. The Court has written to the Commission asking for its views.

Reply of the Commission to paragraph 12.33

Under Article 269 of the customs code, the customs stamp duty is collected for any receipt issued by the customs administration in respect of the duties and charges recorded in the import or export tariff or the internal consumptions taxes provided for in Article 265 of the code. The agricultural levies are not included in the assessment base of the customs stamp duty.

The rate is 2 % of the amount recorded on the receipt, i.e. the same rate which applied on the date when the Common Customs Tariff was introduced.

When the stamp duty is levied on receipts for the payment of duties under the Common Customs Tariff, it can be described as a charge with an effect equivalent to a customs duty. But this definition is not sufficient evidence to prove its incompatibility with the EEC Treaty.

In accordance with the case law of the Court of Justice (Joined Cases 37 and 38/73, (1973) ECR 1609) as regards those charges which are made on goods imported directly from third countries and which were in existence when the Common Customs Tariff was

introduced, prior evaluation by the Community authorities is necessary in order to establish their incompatibility with the Treaty and the obligation to eliminate them. It follows, the Court of Justice states, that such charges may only be considered to be incompatible with Community law pursuant to provisions adopted by the Community.

Examination of the customs stamp duty as to its compatibility with the EEC Treaty therefore depends on the provisions made by the institutions of the Community as regards trade with non-member countries. The preferential Agreements between the Community and certain non-member countries usually contain a provision which prohibits the collection of import taxes whose effect is equivalent to customs duties. The Commission is continuing its study of this question, to ensure compliance with Community law.

Delay in full application of the EUA

12.34. Specific duties in the Common Customs Tariff are expressed in units of account per unit of quantity. Goods subject to these duties, e.g. alcoholic beverages, tobacco, etc. are assessed in the currency of the country of importation. Up to the end of 1977 the rates of conversion applied were the same as those used for budgetary purposes in the Community and were substantially out of line with current market rates.

12.35. Such a system was an open invitation to manipulation. It was possible for an importer of such goods into a Member State whose currency was undervalued in terms of the unit of account to arrange that the importing ship touched first at a port in a Member State whose currency was overvalued in terms of the unit of account. By paying the specific duties in the latter and then conveying the goods intact to the former Member State, a substantial advantage could be gained since no further customs duties could be charged on transfer between the two Member States.

12.36. During the course of an audit in the UK in 1978 the attention of the Court was drawn by UK officials to certain diversions of traffic which appeared to be motivated solely by these exchange differences. The cases concerned the import, via UK ports, of American whisky destined for Germany. The whisky was declared for free circulation in the UK and duty was paid in sterling. Thereafter it was exported to Germany where, of course, no duty was payable. There resulted a saving, in terms of the duty payable in national currency, of more than 50 % for the ultimate importer. It was not possible to estimate the total annual trade diversion involved, not least because importers tended to change the UK port of importation periodically. Nor is it possible to measure what other diversions there may have been by the use of other Member States whose currency, like that of the United Kingdom, is overvalued against the unit of account in force.

12.37. The introduction under Council Regulation (EEC) No 2779/78 (1) of the EUA rates of conversion will ultimately do away with the distortion described above, but the full implementation of the Regulation will not take place before 1 January 1980. Until then special interim rates will apply, with the result that the distortion, although greatly reduced, will still make it possible to arrange artificial contrivances of the kind described. The Court regrets that this should be the case and questions whether this matter was given sufficient attention when the Council decided on these interim measures.

Differences in the date of establishment of own resources

12.38. Own resources are established by the Member States in accordance with their own provisions laid down by law, regulation or administrative action (Article 1 of Council Regulation (EEC, Euratom ECSC) No 2891/77 (2). This rule leads to differences between the Member States regarding the point of time at which establishment takes place in circumstances which are otherwise similar. In most cases these differences may only be a few days and the Court makes no comment on these. But in other instances, two of which are illustrated in the next paragraph, the timing difference can be substantial.

12.39. (a) Customs declarations are commonly accepted even in the absence of documents such as a certificate of origin giving title to a preferential rate, or proof of value. In such cases, the importer must provide the missing particulars at a later date. The establishment of the appropriate duty is subject to at least three variants in the Member States:

(i) the goods are released on payment of the minimum sum, a supplementary assessment being made if the missing confirmatory documents are not supplied in the prescribed time. 'Establishment' takes place on the dates of the two assessments;

(1) OJ No L 333, 30. 11. 1978, p. 5.
(2) OJ No L 336, 27. 12. 1977, p. 1.

(ii) duty is calculated at the higher figure without the unsubstantiated reliefs. This higher figure is then established as own resources. If documents are received later and relief is substantiated, repayment of the excess is made and debited to own resources;

(iii) duty is calculated at the higher figure as in (ii), but is not treated as own resources until the final sum is ascertained. In the Member State in which this is the practice, the Court noted that the sums paid were not always brought to account promptly as own resources at the expiry of the time limit for the production of the missing details.

(b) In fraud and certain cases of dispute, the amount of duty can only be established following a legal or administrative enquiry. Some Member States establish the amount involved immediately such an enquiry is concluded. Other Member States, however, only do so when the sum is eventually recovered.

12.40. Variations of this kind produce unequal financial burdens as between the Member States and, as regards the points illustrated in 12.39 (a), may encourage traders to use ports in one Member State rather than those in another. The Court recommends that the Commission should consider taking steps to harmonize the rules applied in the Member States.

Reply of the Commission to paragraphs 12.38 to 12.40

The Commission is aware of the problem raised by the Court of Auditors; last March it set up an interdepartmental group to define the term 'establishment' in such a way as eliminate the differences existing in this sector between the Member States.

The Commission should receive this group's final report in the course of the year; the Court will be informed as soon as the Commission takes the decision.

MISCELLANEOUS REVENUE

Fines

12.41. A test examination was carried out of the arrangements for recovery of fines imposed by the Commission on firms for breaches of certain Community provisions. The procedure for enforcement is laid down in Article 92 of the ECSC Treaty and Article 192 of the EEC Treaty and the collection mechanism is elaborated in detail in internal instructions adopted by the Commission on 5 April 1977.

Suspension of recovery pending outcome of appeal

12.42. The Treaties provide that enforcement may be suspended only by a decision of the Court of Justice. Article 5 (1) of the internal instructions provides, however, for the suspension of collection during the hearing of an appeal against a fine, except where there are indications of insolvency on the part of the person fined. But a request to the Court to suspend enforcement and an appeal of substance against the fine itself comprise two distinct procedures. Considering that the hearing of an appeal against the fine may involve a delay of many months or even some years, the effect of the Commission's internal instructions is to suspend enforcement for that period. This is questionable on two grounds: first, there may not be good reason for suspending collection of all or part of the fine; second, it seems difficult to reconcile the instructions with the Treaties which reserve the decision to suspend enforcement to the Court of Justice.

Absence of interest provision

12.43. It was also noted that, even after an appeal had been decided, some firms were able, by a variety of manoeuvres, to avoid paying the sums found to be due for further lengthy periods. It seems likely that the absence of any pecuniary penalty for late payment of these fines may be a factor in the adoption of such procrastinatory tactics. The Court would like to know whether the Commission has considered charging interest on such delayed payments and, if so, what conclusions it has reached.

Reply of the Commission to paragraphs 12.41 to 12.43

The Commission is aware of these problems, which are connected, and agrees with the Court of Auditors that the procedure could be improved.

While the Commission is empowered by Article 185 of the EEC Treaty and Article 39 of the ECSC Treaty to proceed to the immediate collection of fines it did not do so where an appeal was made, originally as a matter of practice, in order to reduce the procedural burdens of

the Court of Justice and thus ease the process of appeal for the Court and the parties involved. This practice was subsequently incorporated into the internal instructions referred to.

Experience has shown that this practice, far from achieving the desired result, has encouraged parties to use the process of appeal to delay payment. Having regard to the high rates of interest which currently prevail in most Member States, an undertaking can obtain considerable financial advantage by using the process of appeal to delay payment of even modest fines.

The appeal process is lengthy and it may take several years before judgment is given. Since the savings involved by deferring payment for this period will often exceed the costs of the appeal, not only is the normal risk of appeal reduced to a minimum but an undertaking can actually profit from the procedures even when it loses.

The internal instructions also require the Commission to allow a three-month time limit for payment of a fine. This requirement has caused difficulty for the Commission in the case where the party concerned has gone bankrupt.

These problems are being examined and the internal instructions will, if necessary, be amended.

A possible solution is for all fines to be made payable immediately and for the Commission to proceed to collection upon notification of the decision to the party concerned. If that party informs the Commission of its intention to appeal, the Commission could agree to defer collection on condition that the full amount due was paid into a blocked account. This arrangement would prevent the appeal process being abused and would also reduce the risk of loss in the event of bankruptcy.

The proposal to charge interest is attractive. There are, however, legal and practical problems involved. It is doubtful whether there is a valid basis under existing Community law for the imposition of such a charge. The EEC Treaty is silent on this subject. The ECSC Treaty provides, in Article 50 (3), for the payment of a surcharge of up to 20 % per annum for the non-payment of levies. Article 91 also provides for the withholding of sums due to undertakings for the non-payment of fines.

There is also the problem that if the Commission fails in its attempt to collect a fine, enforcement is governed by the rules of civil procedure in the Member State concerned and this may involve a lengthy process. In view of these problems the practical solution may be for the Commission to declare, in all decisions imposing fines and penalty payments, that the sums involved are payable forthwith (or on becoming due in the case of periodic penalty payments) and that a declared rate of interest will be charged for delay in payment. The adoption of any proposal would in any event be subject to the unlimited jurisdiction of the Court of Justice to review decisions in which fines or periodic penalty payments are imposed.

PART II

THE EUROPEAN DEVELOPMENT FUNDS

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INTRODUCTION

After three on-the-spot missions in countries associated in the ACP-EEC Agreements and a detailed examination of over 100 projects under the European Development Fund, the Court considers it useful to make a first series of general remarks on the setting up and carrying out of projects financed or partly financed by the Community.

These remarks bring together individual observations made by the Court to the Commission which are set out, with the Commission's replies, in Sections 1 to 6 of this report.

The Court intends to lay emphasis on five series of points which seem to it determining factors in the success or failure of a project.

I. The quality of preparatory studies

0.1. Bad preliminary studies lead not only to a badly carried out project and an exceeding of cost estimates but are also the reason why projects stagnate for years.

The unfortunate effects of inadequate studies are illustrated at numerous places in the report:

— in agri-industrial projects: see paragraphs 3.3 (a), (b), (c) and (d) and 3.95,

— in major infrastructure projects: see paragraphs 3.25 and 3.32 (b), (c) and (d),

— in health and social welfare infrastructure projects: see paragraphs 3.59, 3.66, 3.67 and 3.71,

— in educational infrastructure projects: see paragraphs 3.82 and 3.89.

The effects are of various kinds:

(a) neglect of the human and social problems of the populations concerned causes lack of interest in the project or even hostility to it;

(b) neglect of the technical aspects of a project causes its failure or an inflation of the cost;

(c) neglect of the timing of the parts of a project makes it unprofitable (a school without furniture) or unjustly penalizes the farmers (a plantation without a treatment plant).

II. Over-sophisticated equipment and luxury expenditure

0.2. Closely related to the previous criticism is the Court's discovery on various occasions that the Commission had authorized luxury expenditure and the acquisition of equipment which was over-sophisticated or unsuitable (see paragraphs 3.54, 3.70, 3.71, 3.75, 3.86, 3.88 and 3.90).

For the EDF to finance luxury expenditure is inadmissible and equipment which is over-sophisticated or unsuitable for local habits quickly goes out of action or heavily burdens the budget of the project with costs for maintenance (which is often impossible).

In order to avoid maintenance costs, particularly in public buildings, the Court recommends a more general use of local materials, for instance stone or brick facings.

III. The responsibility of the authorities in ACP countries

0.3. The Court has also noted that the local authorities often do not observe the obligations in the Financing Agreements which they sign and that they adopt positions contrary to sound financial management.

These deficiencies are widely illustrated in this report: see paragraphs 3.5, 3.10, 3.22, 3.30, 3.31, 3.32, 3.36, 3.38, 3.59, 3.60, 3.61, 3.77, 3.82, 3.83 and 7.8.

They concern principally:

(a) the absence or inadequacy of maintenance of completed projects;

(b) delay in making available local services and various infrastructures (connection to water and electricity, compulsory purchase and compensation);

(c) the ponderous nature of some administrative procedures;

(d) insistence on obtaining, as a matter of principle, equipment as sophisticated as that used in industrialized countries.

IV. The operation of price policies detrimental to the successful development of some agricultural projects

0.4. By imposing on farmers purchase prices which are inadequate, in the interests of a policy of low prices for food to the principal benefit of the better-off towns, the local authorities discourage producers from diversifying their range of production or give them an indirect incentive to dispose of their produce secretly in neighbouring countries.

The same phenomenon has been noted in the case of agri-industrial products, where prices allowed to producers bear no relation to the effort necessary for cultivation and are well below the, generally free, level of prices for food crops.

This leads farmers to neglect agri-industrial crops for food crops and to regard them mainly as a means of getting access more easily to new reserves of arable land.

V. The role of the delegation and of technical assistance

0.5. This role is vital for the successful progress of a project and the Court has noted, on many occasions, the high quality and devotion of the Commission's staff on the spot.

It has, however, observed that some of them are not well enough acquainted with projects which have been completed for some years, whereas knowledge of them would make it possible to avoid certain past mistakes.

The sometimes rapid rotation of delegates and their staff from one country to another may not be irrelevant here.

The Court has normally found a high quality in technical assistance, with some exceptions: see paragraphs 3.11, 3.26, 3.28, 3.35, 3.72 and 6.4 to 6.10.

The Court is, moreover, concerned at the reply given to paragraphs 3.10 to 3.13, where the Commission merely notes a lowering of the quality of technical assistance without outlining any remedy.

ANALYSIS OF THE GENERAL ACCOUNTS

The European Development Funds (EDF) are still brought to account outside the Community budget. In accordance with the Financial Regulation of 27 July 1976 applicable to the fourth European Development Fund [1], the balance sheets and the revenue and expenditure accounts of the funds at 31 December 1978 are to be submitted to the Court of Auditors by 31 March 1979. They were forwarded unofficially on 29 March 1979. The documents had not yet been approved by the Commission at the time that this report was drawn up.

Moreover, the following analysis of the accounts distinguishes the first three European Development Funds from the fourth Fund as the authority giving discharge is the Council for the first three Funds and the Parliament for the fourth Fund.

SECTION 1: THE FIRST THREE EUROPEAN DEVELOPMENT FUNDS

1.1. The Conventions covering the first three EDFs covered the years 1959 to 1975. However, none of the accounts of these Funds has yet been closed. The following table sets out the present position:

[1] OJ No L 229, 20. 8. 1976, p. 9.

Table 71. Evolution of the first three European Development Funds

(cumulative position at 31 December 1978)

(EUA)

	First EDF 1959–64	Second EDF 1964–70	Third EDF 1970–75	Total
A. Available resources:				
Initial appropriations	581 250 000	730 000 000	905 000 000	2 216 250 000
Transfers of balances from:				
First to second EDF	−11 150 826	11 150 826	—	—
Second to third EDF	—	− 6 242 605	6 242 605	—
Miscellaneous non-allocated revenue	Token entry	85 154	218 465	303 619
Total	570 099 174	734 993 375	911 461 070	2 216 553 619
B. Utilization of funds:				
Decisions to finance (global commitments)	569 947 533	733 854 070	893 178 578	2 196 980 181
Contracts concluded (final commitments)	568 838 659	728 489 832	831 126 215	2 128 454 706
Payments	568 264 054	722 324 267	763 906 357	2 054 494 678
C. Appropriations not yet utilized	1 835 120	12 669 108	147 554 713	162 058 941

1.2. At 31 December 1978 the appropriations which had not yet been utilized amounted to 162 MEUA compared with 237 MEUA at the end of the previous year and there were 468 projects outstanding, 12 from the first EDF, 124 from the second EDF and 332 from the third EDF, compared with 581 at 31 December 1977. Of these 468 projects outstanding, no contract had been signed for 24 projects.

New financing decisions under the second and third EDFs were still taken during 1978 for seven projects under the second EDF and 11 projects under the third EDF.

The Court of Auditors can only reiterate its recommendation that projects still outstanding under the first EDF be brought to the closure stage and that no further decisions be taken to finance projects under the second EDF.

Reply of the Commission to paragraphs 1.1 and 1.2

For a number of years the Commission has been endeavouring to achieve final closure of the operations of the first two Funds. The final closure of the first Fund is expected shortly. There are six projects still outstanding, but they are all in the process of being closed. Seven projects were closed in the first half of 1979.

The position of the second EDF is as follows:

12 projects were closed in the first half of 1979, leaving 112 projects still outstanding. It is true that seven new financing decisions were taken in 1978; it should, however, be explained that six of these decisions related to projects already contracted and fully paid for. In other words, they were not strictly new projects but rather additional commitments designed in most cases to complete projects under the third EDF which had suffered a slight overrun.

The rate of closure of projects under the second EDF can be expected to increase as a number of them could not be closed until the same project, which continued under the third EDF, could also be closed. This procedure is due to the fact that, in some cases, the supporting documents for commitments and expenditure also cover projects under different Funds. It is thus difficult to obtain a full picture when they are inspected if the files are sent separately. In practice, the Commission is always prepared to send the Court promptly the files is wishes to inspect.

By way of information 28 projects under the third EDF had been closed when this report was drafted.

1.3. The three following amounts which have appeared in the assets column of the balance sheet for several years, have still not been settled:

— a balance of exchange losses amounting to 1 145 145 EUA, charged to the third EDF,

— an advance of 37 132 EUA granted under the third EDF to a former management body for awarding scholarships in Belgium,

— a payment of 589 EUA from the second EDF.

An advance of 5 444 556 EUA to the National Banana Board of Somalia under the third EDF fell due on 31 March 1978 and remains in the assets column of the balance sheet of the third EDF. Negotiations are under way with a view to obtaining repayment of this advance.

The accounts show that authorizations for payments have been exceeded by 52 836 EUA, as already noted in previous reports.

Reply of the Commission to paragraph 1.3

The balance of exchange losses amounting to 1 145 145 EUA on the balance sheet would appear to have been settled in the same way as the previous operation by drawing on the net credit interests with the financial establishments where the Commission keeps accounts.

The advance of 37 132 EUA granted to a former management body for the awarding of grants in Belgium is in the process of settlement. A way was found of clearing this advance, which was specified as Bfrs 561 337, after a further inspection of the body's expenditure. Agreement was reached on this between the Commission and the management body concerned which reimbursed an initial portion of the amount. The balance is to be recovered before 31 December 1979.

The payment of 589 EUA from the second EDF is to be settled shortly by means of a commitment to project No 216 016 07 entitled 'Emergency aid for the starving in Somalia' drawn on the EDF reserve account.

The advance of 5 444 556 EUA granted to the National Banana Board of Somalia will be repaid by the Somali

Government in six half-yearly instalments of 907 426 EUA payable in Somali shillings. These amounts will be used to pay local EDF expenditure between 1 January 1980 and 1 July 1982 according to the memorandum of understanding signed by the Commission and that Government at Mogadishu on 6 June 1977. The Somali Government's debt is, covered by an exchange guarantee.

The excess of 52 836 EUA is being settled by means of a commitment for this amount drawn on the Algerian reserve account (EDF 1). The Commission explained this operation to the Court when replying to the remarks made in previous reports.

SECTION 2: THE FOURTH EUROPEAN DEVELOPMENT FUND

2.1. The Fourth Association Convention, known as the 'Lomé Convention', which was signed on 28 February 1975, entered into force on 1 April 1976. This Convention will expire on 1 March 1980, five years after the date of signature. At 31 December 1978 this association comprised the nine Member States of the European Community and 54 African, Caribbean and Pacific States (ACP).

2.2. The Convention set up commercial, industrial, financial and technical cooperation between the signatories and, for the last purpose, a European Development Fund was created (fourth EDF) which was initially allocated 3 000 MEUA for the ACP States, together with 150 MEUA for the overseas countries and territories (OCT) of Member States of the European Community. It should be mentioned that the European Investment Bank (EIB) has also undertaken to provide 400 MEUA from its own resources in the form of loans, of which 10 MEUA is reserved for the OCT.

2.3. At the close of the financial year 1978, the appropriations under the fourth EDF for the ACP countries had increased by the following:

— after former OCT had acceded to the ACP system: + 44·6 MEUA,

— after new States had joined the ACP system: + 9·5 MEUA.

The French OCT also received additional appropriations of 2 MEUA.

Table 72. Distribution of the appropriations of the fourth EDF at 31 December 1978

(MEUA)

	ACP	OCT	Total	%
Subsidies	2 137	39	2 176	69
Special loans	440·1	29·4	469·5	15 (1)
Risk capital	97	4	101	3 (1)
Stabex	380	20	400	13
Reserve	—	15	15	0
Appropriations	3 054·1	107·4	3 161·5	100

(1) viz. 18 % of aid to be reimbursed compared with 10 % for the third EDF.

2.4. The resources managed under the fourth EDF also comprise miscellaneous receipts such as interest on funds deposited and the reconstitution of the Stabex system's resources. At 31 December 1978 the receipts amounted to 13·8 MEUA to be allocated to the ACP countries and 0·1 MEUA to be allocated to the OCT.

2.5. New forms of aid were introduced with the fourth EDF, in particular the system for ensuring the stabilization of export earnings (Stabex), promotion of regional cooperation (300 MEUA) and small projects (20 MEUA).

2.6. For the financial year 1978, the operations carried out under the fourth EDF may be summarized as follows:

Table 73. Value of operations in 1978

(MEUA)

Type of intervention	Decision to finance (global commitments)	Contracts concluded (final commitments)	Payments
Various subsidies	324	340	178
Exceptional aid	25	22	27
Interest subsidies	13	13	12
Special loans	121	81	31
Risk capital	19	17	16
Stabex	62	62	62
Total	564	535	326

2.7. After three years of operation of the Convention, it is interesting to analyze the development of the various sectors of the fourth Fund.

With regard to the financing decisions taken (global commitments), the relative size of each intervention sector has changed little in relation to the third EDF, with the exception of the transport and communications sector, which has been reduced in favour of the industrial sector.

Table 74. Analysis of financing decisions by intervention sector: cumulative position at 31 December 1978

Sector concerned	Fourth EDF		Third EDF
	MEUA	% of total	% of total
Rural production	406	27	27
Transport and communications	323	22	38
Industrialization	280	19	6
Education and training	145	10	11
Health	104	7	9
Exceptional aid	86	6	3
Miscellaneous	135	9	6
Stabex	1 479 175 (1)	100	100
Total	1 654		

(1) Of which 2·4 MEUA has been repaid by recipient countries.

2.8. At 31 December 1978, 14 months from the expiry of the Convention, the appropriations had been utilized as follows:

Table 75. Utilization of the appropriations of the fourth EDF at 31 December 1978.

	MEUA	%
A. Cumulative appropriations	3 161	100
Amount not yet allocated to recipient countries	− 602	19
B. Allocated to recipient countries	2 559	81
Amount not yet allocated by financing decisions	− 905	29
Allocated by financing decisions	1 654	52
Amount not yet committed by contract	− 668	21
Committed by contract	986	31
Amount not yet paid	− 414	13
C. Amount paid for supplies, works or services	572	18

2.9. When financial and technical cooperation was set up, particular attention was paid to the needs of the 24 least developed ACP States, as listed in Article 48 of the Lomé Convention. However, an analysis of the financing decisions in favour of these States shows that, at 31 December 1978, they were lagging behind in comparison with decisions taken in favour of the other States.

Table 76. Comparison of the rates of utilization of appropriations by the least developed countries at 31 December 1978

States concerned	Utilization of appropriations allocated to ACP countries	
	% committed globally	% paid
Least developed countries	62·0	21·5 (1)
Other countries	67·5	23·2

(1) The rate of payment of projects in 14 countries was under 15 %.

2.10. A second group of countries deserves special attention. These are the 31 States which acceded to the association for the first time. The position for these States is as follows:

Table 77. Comparison of the rates of utilization of appropriations by the new associated States at 31 December 1978

States concerned	% of appropriations allocated to ACP States	
	Committed globally	Paid
New associated States	61·7	17·2 (1)
Other States	65·6	25·7

(1) The rate of payment of projects in 15 countries was under 15 %.

2.11. An analysis of the expenditure shows that payments on certain groups of projects are particularly behind schedule:

(a) among the subsidies, village hydraulic projects, training and rural production received the least payments with 4, 9 and 15 % respectively of the financing decisions;

(b) only 6 % of the appropriations had been paid for special loans;

(c) only 11 % of the amount allocated for regional aid had been paid.

Special observations on financial and administrative accounting

2.12. (a) There is delay in clearing some payments. At 31 December 1978 the item 'operations awaiting audit' entered on the assets side of the balance sheet amounted to 14 259 042 EUA, which represents four weeks of payments; but some of these operations awaiting audit date from more than a year ago.

(b) Finance granted under the Stabex system is entered on the assets side of the balance sheet in an amount of 175 279 184 EUA, including an amount of 27 332 097 EUA paid as advances which should have been itemized.

(c) On the liabilities side of the balance sheet, 2 000 000 EUA is entered as contributions from the EIB to the fourth EDF. In fact, this was not a contribution from the EIB but an additional contribution from the the Member States to the EDF by allocation of part of the amount refunded to the EIB, as special loans, by the ACP States and OCT and by the French overseas departments.

The amounts entered in the special EEC accounts held by the EIB and allocated by the Council to the EDF are not recorded in the EDF accounts among the amounts available. The Commission receives the bank statements of these accounts on which payments have been made which are not recorded in the EDF accounts.

(d) Administrative and financial expenditure appearing on the assets side of the balance sheet amounts to 7 820 391 EUA and principally consists of the cumulative total of exchange gains and losses of the four EDFs.

(e) The balance of the bank accounts of the paying agents of the ACP amounted to 113·7 MEUA at 31 December 1978. This amount includes 2·8 MEUA of funds being transferred from one bank to another, of which 0·24 MEUA had not yet reached its destination on 26 April 1979.

(f) The item 'other revenue' on the liabilities side of the balance sheet amounts to 11·44 MEUA of which 11·38 MEUA is from interest on deposited funds and 0·06 MEUA from 'exchange gains and losses'. The 0·06 MEUA should have been charged to 'financial and administrative expenditure' shown in the assets.

Reply of the Commission to paragraph 2.12

(a) The Court of Auditors finds that there is a delay in the adjustment of 'operations awaiting audit' covering a total at 31 December 1978 of 14 259 042 EUA. The Commission does not share this opinion, since, in reality, this figure is less than one month's expenditure. At the end of 1978, the average monthly EDF expenditure, comprising direct and indirect payments, was about 20 MEUA; this average has since risen to nearly 30 MEUA.

It is therefore quite normal that at the end of 1978 a sum of 14 259 042 EUA should be waiting to be adjusted. The delay in certain operations is due to the fact that the necessary supporting documents often do not materialize. The delegations have had to carry out a great deal of research in order for the pending accounts to be settled and adjusted.

(b) The Commission shares the Courts's view that advance payments totalling 27 332 097 EUA in connection with the Stabex operations should be itemized in the accounts. These are provisional operations as provided for in Article 19 (6) of the Lomé Convention which were finally adjusted in the transfer decision taken in the first half of 1979.

(c) It is quite correct that the entry in the balance sheet of 2 000 000 EUA as a contribution by the EIB does not exactly represent the actual situation. In fact, this sum is an extra contribution by the Member States decided by the Council on 29 June 1976 and made available to the Commission through the EIB, which entered the repayments from the ACP countries and the OCT under the heading of special loans.

The heading of this account will be altered accordingly.

(e) At 26 April 1979 the figures with regard to procurements were as follows:

	(EUA)	
1.	80 279·78	(arrived on 12 June 1979) in one instance,
2.	119 612·46	(arrived on 8 May 1979) in a second instance,
3.	40 017·45	(has not arrived) in a third instance.
	239 909·69	

With regard to the third instance, the Commission has written several times to the resident payments officer and the Commission delegate and is following the affair closely.

(f) The Court of Auditors has noticed that a sum of 0·06 MEUA should have been entered in the financial and administrative expenditure account instead of under exchange losses and gains.

This error has been corrected in respect of the financial year 1979.

2.13. There are several discrepancies between the revenue and expenditure account and the account books which have been brought to the attention of the Commission by the Court. These differences arise from errors in copying figures from the account books into the revenue and expenditure account, and from errors in entry not corrected before the closure of the accounts.

Reply of the Commission to paragraph 2.13

These minor discrepancies stem from bookkeeping errors on certain account cards which were discovered after the end of the financial year. This explains why the necessary corrections in the accounts could only be made at the beginning of 1979.

2.14. Almost all of the balances of allocations to the OCT record an overpayment. The explanation given was that the target programmes of these countries have not been adopted and that therefore the debits of the accounts concerned do not represent actual allocations.

Many overpayments were recorded in the balances expressed in national currency. The account relating to one project showed an overpayment of 4 186 EUA.

Reply of the Commission to paragraph 2.14

The OCT target programmes were entered in the accounts in 1979 on the basis of the distribution table at 25 January 1979 which was approved by the Council on a proposal from the Commission.

The present state of the accounts therefore shows the actual allocation in respect of each overseas country or territory, with the result that the allocation balances no longer show any overpayments.

The units of national currency expressing any overpayment in the balances are now indicated only as a guide following the Commission's decision to enter EDF operations in the accounts in EUA; this enables the performance of contracts agreed in national currency units to be monitored exactly.

It can happen, however, that, as a result of differing trends in exchange rates, an overpayment with regard to any particular contract can arise in terms of national currency but not in units of account.

Such discrepancies, which are sometimes inevitable on completion of a contract, are always adjusted when the accounts are closed.

As regards the project mentioned by the Court of Auditors in the final sentence, total commitments amount to 1 471 570·53 EUA but actual expenditure to 1 475 756·12 EUA, i.e. there is an overpayment of 4 185·59 EUA. This is due to a significant increase in the cost of a scholarship year caused by the rise in the cost of living (educational expenses, transport costs, etc.).

It was not possible to adjust this overpayment in 1978, since it was only discovered later when the balances were drawn up. Nevertheless an adjustment has been made in 1979 by deducting an appropriation of the same amount from the allocation in respect of the training programme of the country in question.

Remarks on the 'budgetary' aspects of the EDF

Management of the EDF

The European Development Funds (EDF) are managed separately from the general budget of the Communities.

For this reason the European Development Funds are financed solely by contributions paid each year by Member States at the call of the Commission.

Approval of the accounts

The balance sheets and revenue and expenditure accounts of the Funds as at 31 December 1978 should have been sent to the Court by 31 March 1979. This took place only unofficially on the date mentioned and the documents had not yet been approved by the Commission when the Court's report was drawn up.

The Court has therefore had to base its review on accounts which are not yet final.

The accounts for the year 1977 have not yet been published in the Official Journal.

Administration of the Funds

Each of the four EDFs provides for a duration of five years; the first EDF from 1959 to 1964, the second EDF from 1964 to 1970, the third EDF from 1970 to 1975 and the fourth EDF from 1976 to 1980. But, 20 years after the first EDF came into force, not one of the Funds has been closed.

Delay in using the allocations available varies greatly within each Fund from one recipient country to another and from one type of intervention to another.

Errors and discrepancies in the accounts

The examination of the annual accounts leads, as in the previous year, to several remarks in this report: see paragraphs 1.3, 2.12 and 2.13.

A stricter internal audit is required to avoid similar errors in the future.

This should also make it possible to reduce the delay in settling payments and in recording overruns.

According to the reply of the Commission to paragraph 2.13 of the Court's comments, it appears that three years after having been put on the computer in the Computer Centre, the accounting system for the Funds is still not completely right.

COMMENTS ON THE VARIOUS TYPES OF AID

The following comments on the European Development Fund capital projects have been compiled from two types of audit carried out by the Court of Auditors, that is to say:

— audit on the basis of supporting documents of projects closed or still in progress for which, where necessary, additional information was requested from the Commission,

— on-the-spot audit in a limited number of ACP recipient countries.

The responsible departments of the Court carried out three extensive on-the-spot missions between December 1978 and April 1979.

This report gives a summary of comments ensuing from these two modes of audit, grouping the projects according to type.

The on-the-spot audit covered about 60 projects spread over the four Funds and representing a value of 355 MEUA, covering between 63 and 78 % of the total aid received under the EDF by the countries visited.

The independent missions of the Court aimed to enable the auditors to gain an in-depth view of the effectiveness of development aid. The Court examined the projects implemented not only under the four European Development Funds but also under the food-aid programme. The mission concentrated on the various types of aid for each of the EDFs.

The Court wishes to stress that, in the ACP States visited, the missions were cordially received by the government and local authorities. Furthermore, the missions were greatly assisted by the Commission delegations on the spot.

At the end of each mission the results of the inquiries were recorded in lengthy reports which were forwarded to the responsible departments of the Commission. The latter subsequently advised the relevant audit sector of the Court of their comments.

The Court wishes to state that the criticisms made in consequence of its inquiries are intended to provide the authority giving discharge with some basis for assessment. In this context, it is important to emphasize that the matters which have come under criticism are not the responsibility of the Commission management departments alone; they are often dependent upon action undertaken, and decisions made, by the national and local authorities in the ACP States, so that cases frequently arise of shared responsibility where it is impossible to reach a decision with full knowledge of the facts.

SECTION 3: INVESTMENT PROJECTS

A. Agricultural and agricultural industry projects

3.1. 13 large agricultural projects representing a total of 120 MEUA of finance were examined on the basis of records and on-the-spot investigations.

They include in particular the preparation of land for growing cotton (40 000 hectares), rice (35 000 hectares), palm-trees (10 000 hectares), dah for the manufacture of jute (3 000 hectares), tea (3 000 hectares) and miscellaneous produce (20 000 hectares), as well as projects for the development of fishing and raising livestock.

3.2. Agricultural projects are long-term operations which generally extend over several EDFs. All of them have experienced cost overruns and delays in completion. The objectives of yield, production, surface area and manpower are not often achieved and, in any event, are rarely attained within the expected time limits. They involve costly technical assistance amounting in some cases to one third of the total cost of the project.

Reply of the Commission to paragraph 3.2

It is true that agricultural projects are, by their nature, long-term operations. It is precisely for this reason that, during the past five years — marked by considerable price inflation — overruns have increased in number and size compared with the past and can no longer be covered by the provisions incorporated in the Financing Agreements.

The objectives of an agricultural project are generally laid down in the preparatory study drawn up at the Commission's request — usually by a consultancy bureau. To qualify for help from the various financing bodies — which think in terms of theoretical viability — these objectives are generally expressed in terms of maximum target values and are thus not always realistic. However, if the yield, production, surface area and manpower targets are not often achieved during the financing period, the results may subsequently continue to improve; this is because the change of ideas in agriculture demands time and gradual adjustment to new production techniques. Technical assistance for agricultural projects is becoming ever more necessary and should be stepped up in view of the growing shortage of competent managers in the developing countries. It should also be mentioned that the cost of technical assistance for a project depends on several factors, including the time required to complete the agricultural project.

Preparatory studies

3.3. In several cases the main cause of failure of a project or delay in achieving its objectives is the total or partial lack, or poor quality of the preparatory studies. It also happens that, even when the studies are of the requisite quality, failure on the part of the recipient State to respect all or part of the obligations incumbent upon it under the Financing Agreements compromises the smooth operation of the project. The projects to which these remarks relate are:

(a) One development project of 4 450 hectares (rice, cotton and food crops), begun in 1968, which, in 1979, was still far from achieving its objectives, for the following reasons:

— the inhabitants of a mountainous region who were relocated in the project area had not adapted to the poor climatic conditions there (marshy plain),

— psychological preparation of the transplanted population, which the local authorities were supposed to undertake, had been entirely neglected,

— the local managerial staff, initially put at the disposal of the project, had been replaced in consequence of tribal rivalries.

Cultivation of cotton in part of the project area, which necessitated large-scale investment, had been abandoned because of the soil which had proved, in practice, to be unsuitable for this crop and as a result of a change in the policy of the authorities of the country in respect of prices paid to the producers.

Another proof of the poor quality of the preparatory studies is the fact that the parcels of land allocated to each farmer were successively reduced from two hectares of mixed farming land to 1·25 hectares and to 0·75 hectare at present.

(b) The lack of success of one tea-growing project is largely due to the climatic conditions, the poor quality of the soil and failure to properly train the local population, who were formerly raisers of livestock — factors which the preparatory study should have brought to light.

(c) Serious problems encountered in one tea factory derive from incomplete specifications, poor planning in the choice of machinery and an incomplete preliminary study.

(d) A complete change of plan had to be made halfway through one rice-growing project, involving a considerable amount of extra earth-work and, consequently, new investments.

Reply of the Commission to paragraph 3.3

The main cause of the possible failure of the projects mentioned below is not the total or partial lack or the poor quality of the studies but the socio-economic policies applied by the recipient countries.

(a) It is an exaggeration to claim that the project mentioned in (a) is far from achieving its objectives in 1979. The stage of investment and of settlement of the population is being completed. The final objective of the financing granted under the fourth EDF — the financial equilibrium of the company administering the area in 1982 — seems to have been achieved.

As regards the fact that the inhabitants of a mountainous region have not been able to adapt after being relocated in the plain and that they had not been given any psychological preparation, it should be noted that it is always difficult to move to the plain a population which for centuries has lived in a better climate. From information handed down from generation to generation, the farmers know that the plain is unhealthy and its inhabitants and livestock suffer from disease and are infected by parasites, etc. To change this attitude, a long period of psychological preparation and indeed a real mental and spiritual adjustment is required.

The main reason for abandoning cotton-growing in this area was not technical (soil quality) as the report claims, but economic: the country's cotton policy, the relative trend in the prices of rice, provisions and cotton, the growing demand for rice. No preparatory study could have foreseen the current trend.

As for the change in the area allocated, this project is the first of its type (an irrigated area with total water control) to have been launched in the region. As there was no practical experience in the area, the preparatory studies had to estimate the periods required for executing the works on a transposition to this area of the norms achieved elsewhere in Africa. The determination of the optimum size of the parcels of land would have necessitated the establishment of a smaller pilot area. However, this pilot area would have required as large an investment (water infrastructure) as the current area and thus disproportionate to the results expected.

(b) It seems premature to speak of the failure of the project mentioned in (b). Admittedly, it remains extremely marginal but the rationalization measures envisaged when the last Community financing was introduced should enable this project to achieve financial equilibrium, at least in the long run. A fair number of difficulties connected with this project were known at the outset, but the decision to finance it was taken mainly in order to foster the monetary economy in a region which has no other potential.

(d) The rice-growing area mentioned in (d) was originally planned as part of the programme for improving natural flooding of the paddies by the technique of controlled flooding. However, the river did not overflow its banks in the extreme droughts of 1972 and 1973 and the flooding, which in an average year extends over more than 5 000 hectares in the area, covered only a few hundred hectares and lasted for too short a period to allow the rice to grow normally, causing a real famine in the whole region.

In view of the seriousness of the situation and the need for urgent remedial action, the Commission, at the request of the country's authorities, agreed to make funds available by way of exceptional aid in 1974 so that the controlled flooding method could be replaced by total water control by means of pumps in the river, resulting in two crops of rice a year; this was obviously a more expensive method.

Unfortunately, because of the seriousness of the situation and in view of the various political and social constraints, the total water control had to be implemented from rather summary studies drawn up for the controlled flooding technique; the additional studies were conducted in often difficult conditions as work progressed.

Total water control also requires terracing work and civil engineering of a higher standard than in the case of simple controlled flooding. The cost per hectare is therefore higher, leading to a reduction in the surface covered in order to remain within the budget.

Measures for encouragement of production (problems of ownership of land and policy with regard to prices)

3.4. In the case of a palm plantation, the former owners of the land had still not received compensation in 1979, i.e. eight years after compulsory purchase,

which led them recently to set fire to 1 000 hectares of palm-grove by way of reprisal.

In another project, the farmers who had been relocated complained of having no security of tenure of the land which they were cultivating, and that in consequence they could be expelled at any moment.

Reply of the Commission to paragraph 3.4

The question appeared settled when the project was examined. The expropriations had taken place some years ago and the land was the private property of the State. The Financing Agreement did not therefore contain any special conditions on this point.

Naturally, in cases where the implementation of an EDF project raises problems of expropriation which are not settled in advance, it is ensured that the provisions of the Financing Agreement determine the procedure for conducting these operations (timetable, amount for compensation included in the national contribution to the project, etc.).

As regards the project in question, it is regrettable that the authorities concerned did not inform the Commission of the problems of compensation which continued to exist. However, it should be noted that, although the fires caused harmed the palm groves, most of the area under cultivation has returned to normal growth. On the whole, the damage was probably not very extensive.

3.5. The prices paid to the farmers for their agricultural produce are in many cases inadequate, in particular for export crops (cotton, tea, coffee, etc.), which are marketed by State agencies whose administration is often oversized and whose management is perfunctory.

In many cases, EDF participation is more of an operational subsidy to these agencies than direct assistance to the farmers. In certain instances the State authorities follow a policy of purchasing food crops at low prices for the purpose of favouring the urban population. This policy leads the farmers to hand over only a small part of their harvest to the official agricultural marketing agency while they dispose of the bulk on the black market or outside the country, thus depriving the official body of the resources needed for the proper running of the projects.

Reply of the Commission to paragraph 3.5

Management of the State agencies and prices policy

These questions are very important and there is no miracle solution which can be used in every country. Although the price of products on the world markets is subject to considerable fluctuation and generally remains low, it is not easy to reconcile:

(a) the State's financial requirements when resources are low and mainly derived from agriculture;

(b) the need for the structures or bodies concerned to be viable and efficient;

(c) the best remuneration possible for the farmers.

However, these considerations do not alter the fact that the Court's comments about the oversized administration and perfunctory management of the State agencies marketing the products are well-founded. The Commission is aware of these problems and endeavours to take action as far as it can. Unfortunately, its action often comes up against the political aspects of some situations which the Governments responsible do not always wish to resolve.

One country's policy of purchasing food crops at low prices is also an anomaly and the Commission has unceasingly drawn the attention of the national authorities to the resulting adverse effects on the smooth operation of the projects. The price paid to the rice producer was recently increased by 50 % (between 1976 and 1979), thus improving the situation considerably.

Social aspects

3.6. The success of a project depends greatly on the social measures that are taken in conjunction with it. Thus, an animal husbandry project owed its success to the role played by its two (primary) schools and, above all, by its small medical unit, which led to acceptance by the local inhabitants, who were at first hostile to the assignment of 21 000 hectares of grazing land to the project.

3.7. Two other projects are well on the way to success, thanks, firstly, to the social programmes and, secondly, to information supplied to immigrants and arrangements for their reception.

3.8. Failure to appreciate the social aspects explains the difficulties encountered in agricultural industry projects in general and, in particular, in a farming community consisting of immigrants. In the palm plantations, 50 % of the immigrants leave the project after a few weeks of employment, on the one hand because of the wages, which they consider too low in comparison with more lucrative employment opportunities in the region (large city and petroleum industry), and on the other because they have no land near their huts on which to grow subsistence crops. In other projects, accommodation, schools, dispensaries, food shops and drinking water supply were all late in completion. These various factors have a negative influence on both the recruitment and stability of the labour force.

3.9. Nonetheless, the Commission has tried to remedy some of the faults mentioned above by financing construction of dwellings and social infrastructures. It has recently put forward a programme of small projects in order to improve the living conditions relating to one of the projects.

Reply of the Commission to paragraphs 3.6 to 3.9

In most cases, the Commission appreciates the social aspects of the projects, as they do indeed represent a considerable guarantee of success. It is these aspects which give the populations concerned stability and security and ensure that they are better trained, enabling them to adapt more easily to their new situation. But the social measures linked with the investment must be properly adapted to the mentality and customs of this population.

The growth of the social demands must also be taken into account, and, ultimately, despite the initial analysis to assess the risks and uncertainties of a project, a decision must be taken one way or the other.

As regards an agricultural industry complex (palm grove), it was well known:

(i) that the proximity of a large town represented a risk (the attraction exerted by a town despite unemployment);

(ii) that work on a plantation is not always easy: peak periods, work which is sometimes laborious (picking the bunches) and less highly valued in countries which suffer the social disadvantages of development (prestige of non-manual work or work connected with the modern sectors of the economy). In spite of this, there is still sound justification for the investment decision and its economic and social objectives are likely to be achieved. It should be noted that wages on plantations and in the modern economic sectors are relatively high in the country in question.

Local management and expatriate technical assistance

3.10. Often local managerial staff are assigned to the project late and their number rarely corresponds with that appearing in the Financing Agreement. Inadequate training or the fact that they have a greater interest in other activities explain the difficulties encountered in certain projects.

3.11. Furthermore, the poor quality of the technical assistance staff for which the EDF paid for several years is the principal cause of the present failure of at least two projects.

3.12. The Court has been able to establish that in all these projects acceptance by the farming population, the quality of preparatory studies (especially as regards soil and climate) and the quality of the local managerial staff and of expatriate technical assistance are in reality main factors in the success of a project.

3.13. Participation of the farmer in an agricultural project cannot be obtained unless:

— problems of land ownership are resolved,

— his crops bring him a reasonable return,

— social measures are taken in conjunction with the project.

Reply of the Commission to paragraphs 3.10 to 3.13

There is no doubt that the quality of technical assistance has deteriorated over the past few years. This is largely due to the following factors:

(a) both the planning consultants and the EAC are finding it increasingly difficult to recruit experienced staff;

(b) the ACP States refuse to engage junior specialists because of their lack of experience. This creates a vicious circle, as no junior staff are gaining experience;

(c) the quality of local managers is not improving. Anyway such supervisory staff are not attracted to rural life which is clearly less comfortable than the conditions of town life.

Division of powers between the Commission and the European Investment Bank

3.14. The Yaoundé Convention I (second EDF) made provision for a sum of 50 MEUA, included in the total Community aid, to be granted as special loans; this was increased to 80 MEUA under special loans and contributions to the forming of risk capital in the Yaoundé Convention II (third EDF). The Lomé Convention (fourth EDF) made provision for 430 MEUA for special loans and 95 MEUA for contributions to the forming of risk capital.

In the various internal agreements concluded by the representatives of the Member States assembled within the Council for the implementation of these Conventions, a number of provisions have been adopted in particular to determine the rules for managing financial cooperation and laying down the audit procedures for the utilization of aid. According to these provisions, the preliminary examination of the special loans provided for under the second and third EDFs is carried out jointly by the Commission and the European Investment Bank.

These loans are managed by the Bank on behalf of the Commission on the basis of a specific mandate for each project. Two types of mandate have been used:

— 'limited' mandate: the Commission carries out technical and financial control of the project, the Bank being responsible for paying and recovering the loan;

— 'extended' mandate: the Bank undertakes the entire management of the loan, and its implementation is subject to the audit and discharge procedures laid down in the statutes of the Bank.

In practice, the choice of mandate was determined in a pragmatic way according to the respective experience and functions of the departments of the Commission and of the Bank in the technical area involved by the loan.

Under the fourth EDF the special loans are recorded and managed by the Commission, and the Bank receives a special mandate from the Commission to collect principal and interest.

The European Investment Bank, under its own rules for management, audit and discharge, handles projects to be financed by risk capital under the third and fourth EDFs.

3.15. The transfer of powers to the European Investment Bank does not facilitate the assessment of the industrial part of an agricultural industry project, for example, which is decided on, carried out and audited by the Bank, while the agricultural part is dealt with by the Commission.

The paradoxical situation results that the Commission departments, although represented in the ACP States, are responsible or not responsible for overseeing the execution of the work financed by the EDF, depending on the nature of the Community financing. This situation is all the less intelligible in that where several large infrastructures involving international co-financing are concerned, the various providers of funds entrust the management and supervision of the whole project to the Commission staff on the spot.

It has been noted that, on several occasions, while there had been coordination at the planning stage of a project, this was not always the case at the implementation stage.

3.16. The Court itself has not been informed as to the audits carried out by the departments of the EIB. At all events, the fact that the Commission's agents in the ACP States are left in ignorance as to the regularity and sound execution of certain programmes financed from the resources of the EDF and implemented by the EIB, leads to a lack of coordination in the operations of the institutions and organizations of the Community.

Reply of the Commission to paragraphs 3.14 to 3.16

As the Court of Auditors stresses in its report, the decision to transfer the powers relating to risk capital and special loans to the EIB was adopted in the internal agreement between the Member States.

The Commission is well aware that under such circumstances, from time to time problems may arise in achieving coordination between Community institutions and in informing Commission delegates.

On this second point, whilst it is correct that in respect of internal procedures the EIB is not in any way obliged to communicate with the delegations, it should be pointed out that in practice contacts between certain delegates and EIB representatives are becoming increasingly frequent and that the building up of such relations depends very much on the ability of the individuals concerned to maintain good relations.

3.17. In these circumstances, the Court can only state that, by reason of the abovementioned internal agreements, some of the projects financed out of Community funds escape audit by the Court, and it is thus impossible for it to submit comments thereon to the discharge authority. For example, for a project of the fourth EDF financed by risk capital, the Commission has only been able to supply the Court with a report to the Article 22 Committee and this Committee's minutes at the financing decision stage, but no document at the implementation stage.

3.18. The Court recalls in this context that it had already raised the problem of audit responsibilty in cases where the administration of certain Community aid was entrusted to the European Investment Bank in its opinion of 23 May 1978 (1).

B. **Major infrastructure projects**

3.19. Numerous projects covering road, air, hydro-electric, port and rail infrastructures financed from the EDF for a sum of 153 000 000 EUA were examined on the spot and on the basis of records.

3.20. From the technical point of view, the major infrastructure projects, apart from certain defects referred to below, are being implemented very satisfactorily.

3.21. Nevertheless, for the majority of the projects, the final cost has been considerably higher than the initial estimates, owing in particular to the steep rise in price of the materials necessary for their completion, such as bitumen, cement and fuel, but also to the inadequacy or poor quality of preliminary studies.

Reply of the Commission to paragraph 3.21

By contrast with feasibility studies for civil engineering or architectural projects, technical design and quantity surveying for roads depend on field operations (topographical surveys, borings, laboratory tests). The results of such operations can only be verified by repeating the operations. The quality of a study therefore depends on:

- *the terms of reference,*
- *the ability of the consultants or the body commissioned to carry out the study,*
- *how closely the administration monitors, observes and discusses with the consultants the problems arising in the course of a study.*

It is therefore difficult if not impossible to make a statement in advance as to the exactness of certain aspects of infrastructure, as these can only be verified by the completion of related works.

Clearly this does not prevent the Commission examining studies closely to check that there are no design errors or figures which contradict experience and, if there are, from requesting such checks and further analyses as may seem necessary.

3.22. The basic problem remains the difficulties experienced by the recipient countries in making available the necessary funds for the maintenance that is essential to these infrastructures. One may wonder whether in certain cases it is not a deliberate policy on their part as they are virtually certain that, when the time comes, one or other source of international aid will finance the necessary repairs.

Reply of the Commission to paragraph 3.22

The Commission shares the views of the Court of Auditors.

Road infrastructure

3.23. In one country, the Financing Agreement had made provision for the building of an 80-km national major road for an amount of 6 685 000 EUA. However, only 59 km were in fact built at a cost of more than 9 000 000 EUA, which amounted to an overrun of 85 % per kilometre completed.

3.24. The preliminary study for this road was made in 1968. It envisaged following the route of the existing earth track which had quite a steep incline and which would not allow vehicles to travel faster than 50 to 60 km/hour.

3.25. When work began on the road five years later, it appeared that the markers laid by the company that

(1) OJ No C 139, 5. 6. 1979, p. 19.
Opinion of the Court of Auditors on the draft Regulation on the application of the provisions of the Cooperation Agreements concluded with certain Mediterranean countries.

had carried out the study could not be found. Moreover, it transpired from the files that in any case the initial study had been inadequate.

3.26. Therefore the undertaking responsible for the civil engineering work opted, with the consent of the technical assistance staff financed by the EDF, for a faster route (80 to 90 km/hour), but one which would hardly follow the old track at all.

3.27. The red line (a technical term referring to the level of the road) was systematically lowered. This had the advantage of reducing the incline of the road thus allowing lorries to travel at a more constant speed while reducing their fuel consumption.

3.28. On the other hand, the fact that the red line was lowered in hilly country systematically increased the amount of earthwork invoiced by the firm.

In order to avoid exceeding the initial estimate which was still above its final amount, they omitted to reduce the slope of the embankments, which in places reach 20 to 30 mètres in height.

3.29. Frequent landslides during the rainy season, resulting from the steep sides and springs which had not been diverted, have caused the road surface to deteriorate. They sometimes bring all road traffic to a standstill and give rise to considerable maintenance and repair costs.

3.30. In a second country, the road network was largely financed by the EDF, which made possible the building of over 750 km of asphalt roads at a cost of 27 300 000 EUA, representing 18 % of the total EDF aid to this country. Three roads which were financed under the first and second EDFs, of a total length of 420 km, were subject to an on-the-spot visit. These roads, which were completed eight to 10 years ago, are still in very good condition despite the fact that the authorities do not carry out very much maintenance work on them. Certain defects in the road surface which were pointed out at the provisional acceptance had not been corrected before the final acceptance took place.

3.31. Without wishing to voice an opinion as to whether it is appropriate to give priority to an asphalt road network over other development projects, the Court would point out that, as in other developing countries, the main problem remains the difficulty experienced by these countries in ensuring that the road infrastructure placed at their disposal is adequately maintained. It should be mentioned that the fourth EDF does in fact make provision for an appropriation of 2 148 000 EUA for the maintenance of roads in the country in question.

It would also perhaps be advisable instead of using expensive mechanical appliances as in Europe, to examine the possibility of having, if not the earthworks, at least the maintenance of the roads carried out by the local farming communities, as these people are generally without work for three to four months of the year. This approach, which would employ the plentiful and cheap local labour force to the maximum instead of using expensive imported equipment, is practised in other building projects carried out with Chinese aid.

Reply of the Commission to paragraph 3.31

There is no doubt that a policy of using more manual labour for road maintenance should be advocated, particularly if there is underemployment.

Efforts have been made in the past, and will now be stepped up, to persuade ACP authorities to implement a policy of this type wherever technically and economically possible.

Nevertheless it should be stressed that there are limits to replacing road maintenance machinery by a more intensive use of manual labour:

— *in the case of surfaced roads, the only scope lies in small jobs like clearing ditches and culverts, filling potholes, cutting grass, etc.,*

— *trying to engage labour in the villages through which the road passes may prove difficult, given that this type of maintenance is a continuous job and the availability of peasant labour depends on the agricultural calendar,*

— *using urban labour usually requires highly complex transport arrangements.*

This being said, the main problem is the availability of operating funds to pay for personnel and equipment.

In this field the Commission will make every effort to make the most of the limited opportunities offered by the current texts.

3.32. In a third country, four asphalt roads of a total length of 220 km and a bridge of 360 m were inspected on the spot, viz:

(a) A 75 km section of road was financed from the first EDF for an amount of 1 397 000 EUA and was finally accepted in 1966. Owing to lack of maintenance, this road had to be completely rebuilt in 1978 from credits provided by the International Bank for Reconstruction and Development (IBRD).

(b) A 36·6 km section of road was financed from the second EDF for an initial amount of 2 937 000 EUA which was later increased to 3 143 000 EUA mainly owing to the poor quality of the preliminary studies financed by the local authorities of the recipient country. The road, which was recently repaired in the places most subject to wear, is still in excellent condition six to eight years after it was opened to traffic.

Nevertheless, two bridges, undoubtedly for reasons of economy, had been fitted out in such a way as to present a real danger for users. The ditches along the sides of the road are not maintained.

As in other cases the local authorities waited for 10 months before paying for the work carried out by the successful tenderer.

(c) A 36·3 km section of road was financed from the third EDF for an initial amount of 3 241 000 EUA which was later increased to 3 434 000 EUA. In fact, owing to the poor quality of the preliminary studies financed by the recipient country and modifications made during the very planning of the road, the cost rose to double this amount, the difference being paid by the government in question. Mention should also be made of the excessively long periods which elapsed between the different stages of the project: study (1971), EDF committee (July 1973), invitation to tender (June 1974), commencement of the work (April 1975), completion of the work (1976 and 1977).

(d) A 79·5 km section of road was financed from the third EDF for an amount initially estimated at 7 022 000 EUA. The final cost of the road rose to 15 123 000 EUA of which 2 600 000 EUA was paid by the local authorities of the recipient country and 12 523 000 EUA by the EDF, which represented an overrun of 115 %. The increase in cost resulted from additional construction work, the increase in prices between the estimate (1971), the commencement of the work (1974) and the completion of the latter (1976), and was also due to the poor quality of the preliminary studies financed by the goverment in question.

3.33. Another major reason for the excess of the tenders over the estimates is that a large number of major civil engineering projects were launched on the African market at more or less the same time by various international aid bodies.

3.34. The Commission observed in this respect that:

'this breaking up of the work is essentially due to the fact that the EDF activities were interrupted between the second and third funds. Efforts must be made to avoid at all costs the setting-in of a "cyclical movement": one year of starting construction, two or three years of studies, a further year of starting construction, etc.....

With regard to the road infrastructure, it must be pointed out that there was very little construction work to be started in 1973 and 1974, but that a large number of studies were underway which were all going to be completed at the same time.'

3.35. Furthermore, in the case of the project mentioned under (d), the supervision of the work, which was ultimately financed by the local authorities of the recipient country and left in their hands, was largely neglected, the authorities taking a very complacent attitude towards the firm responsible for the work. This had financial repercussions which were eventually borne by the EDF.

3.36. The same authorities did not pay sufficient attention to the smooth running of the administrative procedures, which control the whole project. In this regard, it should be mentioned that in March 1977 the latter had owed 2 500 000 EUA since 1976 to the firm awarded the contract, in the same way as for the previous road. This attitude eventually had repercussions which were detrimental to the good reputation of the EDF, which is considered by the creditor undertaking as being financially responsible for the project.

3.37. But, as the Commission stated 'the firm's prices are, *inter alia*, calculated according to the reliability and speed with which the party financing the work pays. If the EDF loses its reputation of being a reliable financing body, the price for major works will rise yet again'.

3.38. From the technical point of view, this road is still in a generally good condition, four years after being opened to traffic, although the ditches which run beside it are not maintained. Nonetheless, the road is frequently blocked by landslides at three spots.

3.39. In conclusion, it would appear that when the preliminary studies are financed by the recipient country, the latter has a strong tendency to underestimate the final cost, in order to obtain the Community's approval of the project under consideration, even though it means requesting additional financing during the implementation of the project. In addition, when the recipient country co-finances a project or finances an overrun in estimates, the authority of the Commission representative with regard to the supervision of the work or of the contractor is considerably reduced.

(e) A 360 m long bridge was financed from the first EDF for an initial amount of 1 440 000 EUA which was later increased to 1 898 000 EUA. This bridge, which should have been completed in 1967 was only finished in 1971 as there was a delay of three years between the study and the award of the contract. This bridge is in an excellent condition and meets a real need.

Reply of the Commission to paragraph 3.39

The Commission goes over all estimates for works and does not allow itself to be influenced by the estimates of the countries receiving aid. It should also be mentioned that the prices asked by undertakings depend on the standing of the financiers. It is quite possible that when the EDF is the sole financing body it is possible to obtain better prices.

Air infrastructure

3.40. An airport, which was inaugurated in January 1976, was financed from the second EDF for an amount of 7 393 000 EUA which was later increased to 11 994 000 EUA by charging the difference to the third EDF.

3.41. Technically the airport has been very well constructed. Nevertheless, various defects were observed such as the facts that the control tower was not sufficiently water-tight, in particular above the electronic equipment, nor was the luxurious main lounge, that the air terminal was not adequately equipped to handle freight, that two security lorries were out of order for want of spare parts, and that there was a lack of compressors in the cold rooms, otherwise completely fitted out, when they should serve above all for storing imported medicines.

Hydro-electric infrastructure

3.42. In view of the amount of funds needed for the construction of a dam, one local government contacted several potential financial backers. In 1976, the amount of expenditure, estimated at 120·8 MEUA, to which would later be added 6·2 MEUA for electrical equipment, sluice gates and costs of installing the equipment, was financed by 11 State and banking bodies providing development aid in the following proportions:

(a) Europe (France, Germany and EDF): 42·6 %,

(b) Arab States: 41·9 %,

(c) Canada: 6·7 %,

(d) various international bodies: 8·8 %.

3.43. The contribution of 19·2 MEUA from the fourth EDF and that of 4·6 MEUA from Saudi Arabia were paid in the form of non-refundable subsidies; the other contributions were paid as loans at rates of interest varying beween nil and 8 %. In this respect, payment of interest to Arab lenders in the interim period until the project operates economically, poses serious problems for the local authorities of the recipient country, who would like the Community in some way or other to take over payment of the interest due to these creditors.

3.44. When the dam is finished in 1981 its production capacity will be approximately 170 million kWh.

The cost of the dam — over 125 MEUA — must be compared with the total EDF aid to this country, which amounted to final commitments of 136 MEUA at 31 December 1977.

3.45. Although the EDF only provides up to 20 % of the total financing, it should be mentioned that the Commission delegate on the spot is responsible for the financial management of the whole project, which is proof of the confidence shown by the various financial backers in the EDF administration.

3.46. It is clear that the dam will solve the problem of the country's energy requirements until 1990 and will

make it possible to greatly economize on oil products. The positive result of this project will be even greater if it results, as planned, in an increase in agricultural production of 300 000 tonnes by 1990, due to new irrigation work.

According to the comments obtained on the spot, an alternative to this considerable investment would have been the creation of a large number of small reservoirs along the course of the rivers, providing controlled irrigation for large areas of land and thus contributing to the vital development of the subsistence food crops of a large part of the population, who live under wretched conditions, particularly in this area which suffers from long periods of drought.

Reply of the Commission to paragraph 3.46

The main reason for building this dam was that it would make up the present shortfall in electricity production and cover present and future requirements, which will amount to 106 million kWh in 1980 and 177 million kWh in 1985 respectively.

The dam will also serve as a regulator for irrigation, to complement the building of small reservoirs on small rivers in a basin of the river in question, upon which the Commission is now engaged.

Port infrastructures

3.47. Under the first EDF, the Community financed repairs to the country's main port and the provision of dredging equipment. It is a port through which pass not only all imports and exports of the country in question, but also those of other adjacent landlocked countries. The operation cost 4 750 000 EUA and the work was completed in 1965. During the past 20 years port traffic has tripled and the four quays financed by the EDF are still in excellent condition, unlike the other quays which were not so well designed.

At present, the EDF is participating at less than 5 % in the extension of the port, the cost of which is estimated at 94·6 MEUA.

Rail infrastructures

3.48. The port mentioned in the preceding paragraph is linked to the capital city by an old railway line, 206 km in length, dating from 1926. In 1964 work was commenced on extending the line towards the north. In 1969 an initial section of 297 km was opened and a second section of 327 km went into operation in 1974.

3.49. Community involvement in this operation, in the form of subsidies and also a loan from the EIB, has amounted to 51 768 000 EUA representing nearly 50 % of the total cost of the project, the other important backers being the United States of America and France. It should be noted that the cost of the work was 21 % above the estimates for the first section and 43 % for the second section. At present, realignment work on the old line is being carried out with participation of the EDF to the extent of 10 000 000 EUA in the form of a special loan.

3.50. The infrastructures (stations, warehouses, tracks) do not call for any special comment from a technical point of view.

3.51. During 1978, 3 966 trains used the new section, which was an average of 11 trains per day. On this section, there were three derailments on the open track and 18 derailments in stations compared to 48 and 226 respectively on the old track.

The new section has made it possible *inter alia* to transport over 200 000 tonnes of wood, 37 000 tonnes of cotton and 160 000 tonnes of other goods.

3.52. The main difficulties encountered by the railway company stem from the decayed state of the old track and the rather slipshod manner in which the network is run and its equipment maintained. For example, according to the statistics, the number of train passengers has been decreasing for the past four years, whereas according to statements received, the figure is increasing steadily but more and more passengers are travelling without tickets.

In the same way, the increase in instances of easily saleable goods disappearing on the journey encourages potential users to turn more and more to road transport.

C. Health and social welfare infrastructure projects

3.53. About 10 hospitals, two water supply networks and a site and service scheme for managerial staff financed by the EDF for a total amount of 17 592 000 EUA were examined on the basis of records and on-the-spot investigations.

3.54. All the hospitals visited are widely used and meet the urgent needs of the local inhabitants. They are generally of European design with one exception which was built with traditional materials and is perfectly in keeping with the local architecture.

Most of the hospitals are relatively well maintained, except in one country where they had not been maintained at all and were in a deplorable state. The kitchens, sanitation and electrical installations, which were not designed for the African way of life, were out of order in most cases.

3.55. One of the two water supply networks had still not fulfilled its main purpose, a year after it had been made operational, owing to the closing of the public water fountains for the use of the poor, who constitute the majority of the population.

3.56. The site and service scheme for young managerial staff remains unused two years after its completion.

3.57. A hospital which was financed from the first EDF for an amount of 68 000 EUA was opened in 1967. This is a complete hospital of 63 beds with an operating theatre and an X-ray room.

The buildings and equipment are in a state of general dilapidation, no painting or repairs having been carried out. In addition, the electrical installations have disappeared, there is no longer any water supply, the sanitary equipment is unusable, the kitchen has burnt down and in certain places in the building rainwater seeps in.

3.58. A maternity hospital financed from the first EDF for an amount of 174 000 EUA was opened in 1972. It comprises 72 beds.

The buildings are still in a satisfactory condition, but no painting to maintain them had been done, which will shortly mean either high repair costs or complete disrepair as with the previous hospital.

A number of cracks in the walls, which had been hidden by adhesive tape, had not been discovered when the buildings were finally accepted.

3.59. A serious fault of the buildings is that they have no system for draining-off rainwater, which runs down the walls and erodes the foundations; (this could have been remedied by digging a few trenches and laying a few metres of pipe).

It should be noted that the maternity hospital has no maintenance staff at its disposal.

3.60. Apart from some design errors, such as the absence of a rainwater drainage system, the deplorable state of the buildings and of the equipment of the previous hospital and, to a lesser extent, of the maternity hospital, is due to the total lack of maintenance by the local administration and the permanent shortage of basic spare parts (electric light bulbs, locks, etc.).

For lack of maintenance, the buildings and equipment are in an advanced state of dilapidation and do not meet basic hygiene requirements. Moreover, a minimum amount of maintenance work would have proved less costly than the complete repair which the EDF recently decided to finance.

3.61. It is to be regretted that those responsible for the hospitals seem to have such little spirit of initiative in preserving this health infrastructure which the country so badly needs. To defend their position they point out that they have no operating appropriations at their disposal.

3.62. One hospital, financed from the second and third EDFs for an amount initially estimated at 446 000 EUA including equipment, in fact cost over 1 050 000 EUA, although during construction it was decided not to finance the medical equipment. This being so, the hospital has only antiquated equipment at its disposal.

3.63. The hospital centre is, however, well planned from an architectural point of view and with regard to local requirements. It meets a real need and forms a very important centre for the prevention of disease and the provision of information to mothers.

3.64. Despite this, the lack of medical equipment and medicines, the fact that it is not connected to the mains water supply, the badly designed electrical installations and the lack of hygiene caused by inadequate sanitary installations are all factors with an unfortunate effect on the operation of the centre.

3.65. The building and the equipment of various hospital centres described below were financed from the

second EDF for an amount of 6 158 000 EUA: nine maternity hospitals (240 beds), 16 hospital blocks (412 beds), nine radio-surgery blocks, nine confinement blocks, 11 doctors' apartments, a central pharmacy and a school for nurses and midwives. The Court visited the two schools and three hospital centres.

Although the buildings were completed in February 1969, the equipment was not delivered until 1971.

3.66. The design, layout, construction and maintenance of the buildings generally appear to be very satisfactory and meet a real need of the local population. Nevertheless, the central pharmacy is badly run and of little practical use. In addition, in the hospital centres, the kitchens are not used and the badly designed sanitary installations have been long out of order.

3.67. In places the equipment is inadequate (delivery tables, incubators) or remains unused from lack of staff (radiography) or the absence of qualified fitters (orthopedic table).

3.68. From lack of regular cleaning, the metal water tower, with which each hospital is equipped, supplies water which does not comply with the basic rules of hygiene.

3.69. The fitting out and extension of a hospital, financed from the first EDF for an amount of 620 000 EUA, is now being implemented under the second EDF for an amount of 2 346 000 EUA.

3.70. The hospital meets a real need, but the attitude of the architect's office financed by the EDF appears to be ambiguous and off-hand towards the users and the Commission staff.

Certain items of expenditure were incurred in bad faith and are simply a waste of appropriations. The Commission should have intervened forcefully from the design stage of the project onwards in order to prevent such unsatisfactory financial management.

3.71. The doctor in charge at the hospital wrote as early as 21 April 1972: 'It appears that those who designed this hospital and made provision for its equipment were not aware of the climatic conditions, the operating conditions (volume of the septic tanks) or of the need for simple installations due to the lack of operating appropriations and to the scarcity of maintenance staff.

A large part of the cost of the hospital was allocated to equipment which could not be used (superfluous and dangerous lift, triple emergency electrical circuit) whereas the hospital is connected to a double security circuit from the municipal power station, call circuit, external façade of approximately 250 m² in mosaic, glass-fronted entrance'.

Furthermore, the rainwater disposal system of the old and new buildings defies all good sense, since the design is impractical, massive amounts of reinforced concrete were used in the construction and the cost is quite out of proportion.

3.72. In 1978 the architect's office rejected outright new proposals put forward by the doctors at the hospital to improve the design of the new buildings. Therefore, the errors criticized in 1972 will probably recur.

3.73. A water supply system, financed from the second EDF for an amount of 2 376 000 EUA, was put into operation in 1973. The project comprised building a pumping-station and purification plant with a capacity of 750 m³/hour, and doubling the existing distribution network.

3.74. The project certainly contributed to supplying potable water to a very densely populated urban area. Nevertheless, the water, which the local community regarded as a luxury, being in their view too expensive, is almost solely used for drinking. The effort to improve conditions of hygiene therefore only had a limited effect.

The low income of the inhabitants and their ancestral traditions in fact mean that the traditional water points, which are suspect from the hygiene point of view, are, as in the past, very popular in the urban areas.

Moreover, the system of management practised by the distribution company, the low sale price of the water and the fact that the local authority does not pay for the water distributed to public water fountains, do not allow the network to be developed by means of self-financing in this town or in other towns in the country. Furthermore, on average, the distribution company only invoices two thirds of the water supplied as many individual meters are broken and are not repaired for lack of funds.

Reply of the Commission to paragraphs 3.73 and 3.74

The Court of Auditors highlights a phenomenon which is prevalent in poor countries, both in the rural areas and in the towns. The population seems reluctant to use modern facilities for distributing drinkable water, preferring sources of water of dubious quality (e.g. wells which are polluted because they are not deep enough, marigots, rivers, etc.).

In the town in question, therefore, the population still uses wells to a very large extent or, at best, uses tap water only for cooking and drinking.

In the light of the factors which go to make up under-development, the food projects represent a fundamental contribution essential to the furtherance of development, but they can be fully effective only if other action is taken in other areas (e.g. production, hygiene, teaching, etc.) which have indirect implications for the water project.

3.75. Finally, some over-sophisticated and sometimes unnecessary equipment (automatic starter system on the generating sets, water meters linked to electronic boards, etc.) is out of order due to a lack of spare parts and of engineers able to carry out maintenance and repair work.

Reply of the Commission to paragraph 3.75

Wherever possible, the Commission endeavours to advocate the use of equipment whose operating features are in line with local capabilities and with the requirements to be satisfied. This is not always possible.

Technological advances in the industrialized countries result in the manufacture of increasingly sophisticated equipment and hence the withdrawal from the market of older, technically less sophisticated designs.

The Court of Auditors has touched on a difficult problem of which the Commission is well aware. In many cases, however, it can only be overcome by stepping up the efforts to train highly-skilled staff in the developing countries and by developing appropriate intermediate technology.

3.76. A further water supply system, financed from the third EDF for an amount of 3 000 000 EUA, was put into operation in 1978. The project involved building a pumping-station and purification plant of a capacity of 250 m³/hour, and the supply and installation of a distribution network comprising 1 500 private connections and 20 public water fountains.

3.77. Only a year after being put into operation, this project is, for the most part, a failure from the point of view both of social welfare and of health and hygiene. Only the most privileged, from a financial or administrative standpoint, are connected to the distribution network, whereas the water fountains intended for the poor, the majority of the population, were closed because the local authority did not pay the distribution company for the water sold. Furthermore, a hospital financed by the EDF is still not connected to the water supply although the main passes within a few metres of it.

With regard to technical matters, the station, which has a capacity of 5 500 m³/day, in fact only produces 500 m³/day, a year after it commenced operation.

Reply of the Commission to paragraphs 3.76 and 3.77

This project was put into operation in 1978; to be used to the full the scheme will have to bring about a profound change in the behaviour of the population which previously contented itself with free river water and did not have to pay a fee for access to the urban distribution system.

Before optimum use is made of the facilities, a running-in period must therefore be accepted, and it will also take some time for the company in charge to take over the management of this new project.

However, once the special fund system — which has already produced results in other ACP countries and was created to enable the least-favoured populations to be connected up to water supplies — is operational, the validity of the project should no longer be in question.

Moreover, the dispute between the distribution company and the municipality which does not wish to pay for the water provided at the public fountains should not call the project design into question. The Commission delegation is doing all it can to resolve this problem.

The many letters sent to the country's authorities have already resulted in the hospital centre and a hotel being connected up to the town network.

It has to be admitted, however, that the capacity of the treatment station exceeds present requirements.

Nevertheless, it should be recalled that one of the project's objectives was to supply drinkable water to a settled population and a floating population, and the country's authorities were expecting a large increase in these populations, entailing considerable requirements and therefore necessitating facilities which at present may appear to be surplus to requirements.

However, there is a possibility that the town concerned, the second largest in the country, could experience considerable population growth, as has already happened in other towns, and that the demand for water may rise, as a result.

3.78. A site and service scheme for young managerial staff, financed from the third EDF for an amount of 1 800 000 EUA, involved providing the infrastructure for a site of 23 hectares, for the purpose of building 430 houses for executives of the country concerned under a 'location-vente' scheme [1].

The complete infrastructure of the site was finished at the end of 1977 but up to now has not been used at all because the dwellings, which are financed from other sources, have not been built.

Although it is not for the Court to deliver an opinion on the priority of projects, it considers that if priority is given to a project such as the one described above, then in its initial appraisal of the scheme the Commission should satisfy itself that the project as a whole has a reasonable chance of being successfully completed.

Reply of the Commission to paragraph 3.78

It has to be admitted that the project concerning a site and service scheme for young managerial staff has fallen far short of expectations, since the housing, which was to have been built on the site prepared with Community funds, and was to have been financed from other sources, was not built. Although the Commission does not have at its disposal effective means of remedying such a situation, it deplores the fact that EDF finance has not yet been put to full effect because of the absence of bilateral financial aid from a Member State. It should be pointed out, however, that the site in question is still available and can be used if other funds can be mobilized.

[1] This is a leasing contract with an obligation to buy.

D. Educational infrastructure projects

3.79. A large number of primary and secondary schools, higher education establishments, technical colleges and a science faculty which were financed from the EDF for an amount of 31 650 000 EUA were examined on the basis of records and on the spot.

The educational establishments meet an acute need in the countries concerned and are usually attended by a far larger number of pupils than anticipated. However, they are generally built and equipped according to European techniques from imported materials, which are expensive and sometimes unnecessary and are difficult to maintain. They do not adequately meet local needs and are not suited to local customs.

3.80. In this regard, the Court wishes to quote a comment which it received on the spot and which it considers to be particularly noteworthy:

> 'If these students were in Paris they would have slept in beds and have quickly, even spontaneously, begun to maintain the premises, because the new cultural environment would have helped them in a decisive manner.
>
> But at home in their own cultural environment the whole design of the premises — architecture, structure (three storeys which are perfectly useless in view of the unlimited space available), equipment, fixtures, etc. — was seen as a "foreign body", and therefore difficult to use as it was. This is the reason why they have transformed the premises into an "African village", with, however, one difference: the village has great significance as far as social and family "intimacy" is concerned, and it is therefore lovingly maintained (order, cleanliness); this is not the case with the place of study, which is temporary accommodation, belonging to an abstract and distant "State" often considered to be the heir of the colonial power, badly integrated into the cultural tradition and led by a minority who are sometimes not well educated and which, because of its powers, is in reality a sociological majority.'

3.81. A school project, financed from the first EDF for an amount of 7 148 000 EUA, covered the building of 760 primary classrooms of 60 m² each and 480 dwellings for teachers; under the third EDF, an amount of 3 079 000 EUA covered the building of 270 classrooms of 64 m² each.

3.82. The buildings erected under the first EDF, completed in 1968 and 1969, are generally in a fairly

dilapidated condition due to the large sliding doors which form the partitions of one of the façades having disappeared or become dislodged. Indeed, the wooden frame of these aluminium-plated doors was rapidly destroyed by termites. In addition, most of the revolving glass plates controlling the classroom ventilation system are broken.

3.83. The buildings constructed under the third EDF and completed in 1979, show that progress has clearly been made since the first EDF, as their design is more robust and less refined, particularly in the occasional use of local stone and the use of traditional natural ventilation techniques.

However, most of the metal doors showed construction faults as soon as they were installed and the wall-cladding cannot be maintained by the users of the building for lack of sufficient funds. In this regard, if local stone, which is readily available on the spot, had been used generally, instead of blocks of concrete coated with plaster, there would have been no problem of subsequent maintenance.

3.84. The building of two new colleges and extensions to three technical colleges was financed from the third EDF for an amount of 5 966 000 EUA.

In the initial project, the dormitories were to represent over 40 % of the total building. It was decided not to build the dormitories but this did not lead to any revision of the price or of the overall design of the buildings. The capacity of the kitchens was maintained although abandonment of boarding houses meant that they were virtually redundant.

3.85. There was a considerable time-lag between the completion of the buildings and the delivery of the equipment which meant that investment was unproductive for many months.

3.86. In all the buildings, luxury expenditure was accepted, such as the over-equipped kitchens and toilets with mosaics, a false ceiling in wood in the kitchens, balustrade sun-shades fixed to the outside walls although the covered passages along the walls already protected them from the sun.

3.87. The construction of a high school and a college of education was financed from the first EDF for an amount of 7 233 000 EUA.

The school buildings, which are greatly used, are a typical product of European architecture and contain a considerable quantity of imported materials. Various faults in the design, use and maintenance of the equipment have appeared, such as the fact that the roofs are not water-tight and the electrical system, sanitary appliances, kitchen equipment and window sealings are either defective or inadequate.

One may also question the expediency of supplying relatively sophisticated equipment which is not well-suited to the local way of life and whose subsequent maintenance automatically poses problems, for example, in the kitchens.

3.88. Finally, to equip each room with an individual shower and water point would seem to be a luxury out of all proportion, particularly as the majority of the population has to make do with a water fountain for several hundreds of people.

3.89. The construction of an 'école normale supérieure' for an amount of 1 374 000 EUA, an 'école nationale d'administration' for an amount of 509 000 EUA and a second 'école normale supérieure' for an amount of 1 779 000 EUA were financed from the first, second and third EDFs respectively.

These buildings are excellent both in their design and their execution and are generally used to a much greater extent than estimated.

Nevertheless, part of the kitchen equipment is out of use and the badly designed roofing of the 'école nationale d'administration' has given rise to serious damage to the outer walls.

3.90. The building and equipping of a science faculty and a student hostel are still in progress under the fourth EDF for an estimated amount of 3 828 000 EUA.

The premises of the science faculty appear to have been well designed, but have a somewhat luxurious finish. As for the student hostel, it should be mentioned that the 240 rooms will each be fitted with a shower and wash-basin so that the students should not have less than their neighbours in similar hostels, financed by bilateral aid from a Member State.

Reply of the Commission to paragraphs 3.79 to 3.90

The Commission is perfectly aware of the problems of adapting buildings and equipment to the climate, resources, traditions and way of life of the locality in which they are used.

The Commission has learned from past experience and, for new projects, has made considerable efforts, in the field of forward planning and research, to overcome the shortcomings observed and avoid, as far as possible, a repetition of past mistakes.

The following objectives have been set as regards the financing of new projects:

(a) better socio-cultural adaptation of projects;

(b) simpler infrastructure and equipment;

(c) optimum use of local equipment and manpower resources;

(d) more training schemes for management and maintenance staff.

The question of maintenance and the proper utilization of completed capital projects concerns the Commission as much as it does the Court. A complex problem is involved and the responsibility lies primarily with the national authorities in the countries where the projects are carried out.

Clearly, maintenance carried out at the appropriate time would maintain the value of an investment project and permit better utilization. However, all parties, in particular the Commission, are aware of the difficulties that the ACP countries have in budgeting for the maintenance and proper functioning of projects. However, some countries do make an effort which should not be underestimated.

As regards the question of supplies of spare parts, the Commission is endeavouring to resolve this problem to the best of its ability by specifying in its invitations to tender:

(a) simpler equipment which is less likely to break down;

(b) greater uniformity for the apparatus or equipment in a complex;

(c) efficient after-sales service.

E. **Industrial projects**

3.91. In addition to the agricultural industry projects referred to under point 3.1, a slaughterhouse, a cement factory, two power stations and a peat-winning project, financed by the EDF for a sum of 5 485 000 EUA, were examined on the basis of records and on the spot.

3.92. A slaughterhouse financed from the first EDF for an amount of 2 864 000 EUA constitutes a real success from the point of view of both execution and management. In the absence of adequate means of transport, the meat is not distributed within the capital concerned under sufficiently hygienic conditions.

3.93. A power station financed from the second EDF for an amount of 724 000 EUA was well designed. The power station uses 50 000 litres of diesel oil per day, which is transported from the port of unloading by rail over a distance of 934 km and then for 310 km by road. The fact that in these circumstances, the selling price of a kW/hour is up to 50 % lower than its cost price, should prompt the local authorities to fight against the waste of energy which results, for example, from the increasing number of air-conditioners in public premises and in certain schools whose construction was financed by international aid.

3.94. A cement factory was constructed under the second EDF for an amount of 1 640 000 EUA, made available to the local authorities in the form of a special loan through the European Investment Bank.

The Bank supervises the awarding of contracts and orders for work, materials and supplies, which explains why the Commission's files only contain very few supporting documents, these being kept by the EIB.

The cement factory represents a successful achievement, running at maximum capacity and supplying with cement a region situated more than 1 300 km from the sea. The selling price of the cement is 96 EUA per tonne, while the mere cost of transporting it from the coast to this region would be about 90 EUA/tonne.

3.95. A floating dredger worth 100 000 EUA was delivered in January 1978, in order to enable a peat-bed in the marshy land to be exploited. In the interim there was a change of plan on the method of extracting the peat: the marshland was drained and the dredger remains unused in the port of unloading.

SECTION 4: MICROPROJECTS

General summary

4.1. In order to respond in a concrete fashion to the needs of the local communities in the ACP States and the OCT, the Lomé Convention provides, by way of

experiment, for participation by the EDF in the financing of microprojects, in particular in rural areas.

To this end, a sum of 20 MEUA has been allocated to the fourth EDF for the first two annual programmes of microprojects, to cover commitments relating to this new type of scheme.

In order to be eligible for Community financing, the microprojects must:

— stem from an initiative taken by the local community concerned, whose active participation must be ensured,

— meet a real, priority need,

— have a tripartite financing structure: the community benefiting, the State concerned and the EDF (whose contribution may not exceed 75 000 EUA per microproject).

The problem of commencement

4.2. The adoption of administrative rules for this type of financing operation has been particularly slow. Projects under this head did not begin in the first five recipient States until 1977.

In one State visited by the Court, a period of more than a year elapsed between the date of the request and the date upon which the Financing Agreement was signed. This long interval was prejudicial to the completion of certain projects, whose organizers had in the meantime been allotted other tasks.

Reply of the Commission to paragraph 4.2

The process of adopting administrative rules for this type of financing has been slow. However, the time elapsing between the date of the request and that of the financing decision is generally about four to six weeks. Any longer interval is simply due to the fact that further information had to be obtained from the State concerned.

Position at 31 December 1978

4.3. On this date, the Financing Decisions taken for the benefit of 22 ACP States and two OCT amounted to 9 465 000 EUA for the ACP and to 615 000 EUA for the OCT.

This means that for over half of the beneficiary countries of the Lomé Convention there has, to date, been no decision concerning this type of action.

Reply of the Commission to paragraph 4.3

The Court states that 'for over half of the beneficiary countries of the Lomé Convention there has, to date, been no decision concerning this type of action'. This is not abnormal, since not all of the signatory States to the Lomé Convention have made arrangements for the financing of microprojects in their indicative programme. There has, however, been a marked improvement in the situation since 31 December 1978. At 1 July 1979, 43 programmes had been approved totalling 15 200 000 EUA (76 % of the total of 20 MEUA allocated to the Lomé Convention being committed). Only two countries which are planning microprojects have not yet submitted their requests for financing.

4.4. The final commitments (tendering or contracts concluded) amounted to 6 295 000 EUA for the ACP States and to 65 000 EUA for the OCT. Payments only totalled 3 860 000 EUA for 14 ACP States and 50 000 EUA for one OCT. This represents only 19 % of the allocation of 20 000 000 EUA, 14 months before the expiry of the Convention.

Reply of the Commission to paragraph 4.4

The small percentage of payments noted by the Court of Auditors is due to the relatively late launching of this type of financing, which was caused by delays in the approval of the administrative rules (see point 4.2) and the fact that the ACP States have not always recognized the value of this new form of technical and financial cooperation and, as a result, have often submitted their programme at a very late date and only at the Commission's prompting.

The situation has improved considerably since 31 December 1978:

— *final commitments: 11 433 169 EUA,*

— *expenditure: 5 070 338 EUA;*

accounting for 57·16 % and 25·35 % respectively of the overall allocation.

4.5. A breakdown by type of project shows that the great majority of microprojects were concerned with social welfare infrastructure and rural hydraulics (wells).

4.6. The average contribution of the EDF to the annual microproject programmes of beneficiary countries was about 40 % with a maximum of 80 % in one case and a minimum of 19 % in another. In certain cases, the Commission had difficulties in recovering the advances granted for projects which had been cancelled or upon which work had not been started after a specified period.

4.7. During its on-the-spot visits, the Court noted the great interest shown everywhere in this type of project, which represents an excellent method of intervention, with effects on the inhabitants concerned much more rapid and concrete than in the case of large-scale projects.

Since these small projects are scattered at great distances from each other, the Commission delegation cannot adequately carry out its normal supervisory tasks.

SECTION 5: GENERAL TECHNICAL COOPERATION

A. **Training projects**

5.1. Training is included in the rubric of technical cooperation schemes, provided for by Article 46 of the Lomé Convention.

The training programmes involve the award of study grants and training grants, the sending of instructors, the organizaton of seminars and other training projects.

Between 1976 and 1978 44 multiannual training programmes (1976 to 1980) and five specific projects were approved by the Commission and by each beneficiary State. They provide for the awarding of grants in specific sectors. These grants are awarded for studies either in Europe or in the ACP States.

5.2. At 31 December 1978 a total sum of 82 132 000 EUA was committed from the fourth EDF in the form of training expenditure for the benefit of the ACP States, including 17 328 000 EUA during the financial year 1978.

As in 1977, the percentage of final commitments and authorizations remains low in relation to total commitments.

At 31 December 1978 final commitments amounted to 34 319 306 EUA (as opposed to 13 609 504 EUA at the close of 1977) and the authorizations totalled only 7 335 783 EUA (as opposed to 1 970 830 EUA at the close of 1977) i.e. 9 % of total commitments entered into under the fourth EDF.

At 31 December 1978 expenditure under the third EDF for training projects amounted to 32 012 572 EUA (as opposed to 27 664 014 EUA at the close of 1977).

Reply of the Commission to paragraph 5.2

The Court states that the percentage of final commitments (41·7 %) is low in relation to total commitments. This statement should be qualified. The lag can be attributed to the accounting system used for these operations, the appropriations for which have been committed in toto *by the Commission for a multiannual period.*

These appropriations are, however, finally committed as and when individual decisions are taken by the Commission for each award holder according to the length of his studies. Since the major proportion of expenditure cannot be entered in the EDF books until after the auditing of the annual accounts, which are submitted not later than 31 March (i.e. six months after the end of each academic year, which is fixed at 30 September), there is bound to be a delay in the entry of expenditure in the accounts.

Management bodies in the Member States

5.3. The advances paid out to the various bodies responsible for administering EDF grants in the Member States were entered into the balance sheet of the fourth EDF at 31 December 1978 for a sum of 10 413 189 EUA, compared with 5 789 234 EUA at 31 December 1977. During the financial year 1978, only a sum of 1 620 022 EUA was accounted for.

At 31 December 1978, the advances to be accounted for, paid to the management bodies in the Member States, featured in the accounts of the third EDF as a sum of 2 335 773 EUA compared with 5 560 373 EUA at 31 December 1977.

Reply of the Commission to paragraph 5.3

The increase in the amount paid out as advances under the fourth EDF is due to the growing number of award

holders studying in the Member States and to the need to open special accounts in the ACP States for holders of Commission grants studying in those countries.

The Commission periodically adjusts the amount of advances granted to match actual needs, and takes into account the available funds unused when replenishing the accounts.

5.4. The agreements made between the Commission and the various management bodies contain different dates for submission of the annual accounts to the Commission; however, the final day for the presentation of the expenditure of the previous academic year is 31 March.

Although all the management bodies have observed these dates, the Court found that, as in the past, there had been serious delays in the Commission's accounting for advances.

One management body forwarded its annual accounts without enclosing the required supporting documents, making it impossible for the Commission or the Court to audit on the basis of records. Moreover, this organization does not appear to observe the fixed allowances for equipment, books and materials.

Reply of the Commission to paragraph 5.4

At 1 January 1979, the expenditure of four management bodies for the 1976/77 academic year remained to be checked. With the exception of one body, which will have been checked by the end of the year, auditing is now completed.

Over one third of the audits for the 1977/78 academic year have been completed and the remainder is expected to be completed by 31 March 1980.

As regards award holders studying in the ACP States, expenditure is checked on a day-to-day basis; there has been no delay in this sector, which covers some 3 500 award holders (approximately three quarters of the total). The Court's statement that there had been 'serious delays in the accounting for advances' goes a little too far.

Certainly, one management body forwarded its annual accounts without enclosing supporting documents, but this was because the law of its country requires vouchers to be kept for seven years since the body is a public department. These accounts are carefully checked in an audit and the Commission can make an on-the-spot inspection of the vouchers.

5.5. The expenditure of the management bodies audited by the Court was charged to the accounts without having been subject to the prior approval of the financial controller. For one management body, the distribution of expenditure between the third and fourth EDFs did not correspond to the distribution of advances accounted for under these two funds.

A debt of 37 132 EUA dating back to January 1974 from a former management body had still not been recovered in 1978, although the Commission had stated in its replies to the comments for the financial year 1977 that this debt was in the process of being recovered.

Reply of the Commission to paragraph 5.5

The Court of Auditors' comment will be taken into account when the financial control of the European Development Fund is reorganized.

It is quite normal for the distribution of expenditure under one or more Funds not to correspond to the distribution of the advances granted.

Since the cash reserves of each Fund are considered as a single unit, all those of the third EDF were used up before those of the fourth EDF were drawn upon, in accordance with the wishes of the Member States. It is hence logical that the budgetary charging of expenditure will be different from that for the clearance of advances.

The comment made in the last paragraph of this point is answered in point 1.3.

Observations arising from on-the-spot missions

5.6. In one ACP State, all the students receive a national study scholarship. The students concerned are not informed that some of these grants are financed by the European Community.

In actual fact, the awarding of EDF grants constitutes a subsidy paid directly to the budget of the Ministry of Education, as the grants paid by the EDF to the State authorities are higher than those paid to the students.

Reply of the Commission to paragraph 5.6

For studies or training courses in the countries of origin, the Commission generally aligns its grants on the level of government grants. In the particular case of the country mentioned by the Court of Auditors, the Commission did award higher grants up to October 1977 than those paid by the Government to its university students. This anomaly was, however, stopped at that time at the delegation's initiative, and grants from the EDF have since been aligned on government grants.

The Commission has one award rate for regional or inter-State bodies organizing training courses in other ACP States. In many cases this is lower than in the country of origin.

5.7. In another ACP State, the EDF finances *inter alia* 108 scholarship holders following courses in a local agronomics institute. Two teachers are made available to this institute. However, they only teach for about 12 hours a week and do not even possess basic teaching materials. It should be pointed out that a bilateral aid agency allocates the teacher an operational budget which he manages himself. In the same institute, teachers provided by the technical aid programme of the Soviet Union teach their students with the assistance of an interpreter who interprets from Russian into French.

5.8. In a third ACP State, the accounts of the bank responsible for paying the monthly allocations to the scholarship holders have not tallied for several months with the accounts of the delegation: the difference is in the region of 9 000 EUA.

5.9. In reply to the observations of the Court in its previous report, the Commission stated that 'the role of Commission delegates in implementing training programmes and in allocating grants will become more important after the completion of the ground work'. The delegation still plays an insignificant role in the allocation of grants according to rules which fulfil the requirements of sound financial management. In fact, all students generally receive grants and the delegation does not know what criteria of selection are employed in the awarding of EDF scholarships. Sometimes the EDF grants are not even allocated individually.

Reply of the Commission to paragraph 5.9

The role of the Commission delegates in the selection and processing of applications is simply to check that the training requested corresponds to the programme drawn up, without encroaching on the sovereignty of the ACP State; the State is responsible for selecting award holders through its awards committee, which has its own criteria laid down by national legislation.

To facilitate training courses in the countries, grants are awarded on the basis of a list. Only the actual awarding is on this basis, since each delegation has files for all the students.

B. Trade promotion

5.10. At 31 December 1977, the financing decisions charged to the fourth EDF for this intervention sector gave rise to total commitments of 23 477 787 EUA, of which the final commitments resulting from the conclusion of contracts totalled 8 871 110 EUA.

Payments, on the other hand, were only 5 243 193 EUA, representing only 59 % of final commitments and 22 % of total commitments.

The budget reserved solely for trade promotion projects differs greatly from one ACP State to another.

In 1978 the EDF financed the participation of ACP States at 22 fairs or specialized shows on 138 occasions.

SECTION 6: TECHNICAL SUPERVISION AND DELEGATED FINANCIAL CONTROL

6.1. On 5 October 1978 the Court of Auditors adopted a report entitled 'Observations on the operation of the European Association for Cooperation (EAC)'.

The balance sheet, the revenue and expenditure account and the balances in the EAC accounts were not submitted before 31 March as required by the Financial Regulation [1]. It was not until 15 May 1979 that they were unofficially forwarded to the Court.

The Court urges the Commission to forward to it the official documents as soon as possible and in future to observe the deadline of 31 March.

[1] OJ No L 229, 20. 8. 1976, p. 9.

Reply of the Commission to paragraph 6.1

It is true that the EAC balance sheet was not submitted officially to the Court of Auditors before 31 March. This document was nevertheless drawn up within the prescribed time limits, checked by the EAC Auditor at the beginning of April and forwarded unofficially to the Court during the month of May.

The final approval of this document had to be held up owing to negotiations for the Lomé II Convention; the Commission will take the necessary steps to forward the balance sheets and the revenue and expenditure accounts within the time limits laid down by the Regulations.

6.2. An examination of the revenue and expenditure account gives rise to the following comments:

(a) the Commission official responsible in the Directorate-General 'Development' who performs the financial audit of all commitments of the EAC signed, on several occasions, as acting authorizing officer, commitments of expenditure of this Association of which he is also auditor. This confusion of functions is contrary to the provisions of Article 8 of the Financial Regulation of 27 July 1976 applicable to the fourth European Development Fund;

(b) the quarterly transmission to the Commission of accounts of the expenditure carried out on its behalf by the EAC has made it possible to reduce the time limit for allocating this expenditure from one year to three months;

(c) the expenditure under the EDF has been cumulated, since 1964, on the assets side of the balance sheet of the EAC instead of being deducted at the close of each financial year from the advances received. Furthermore, such expenditure cannot be shown under the assets of a balance sheet;

(d) some exchange profits and losses remain entered under the balance sheet of the EAC while they are chargeable to the EDF;

(e) there is an unjustified difference of 2 269 307 EUA between the balance of the advances to the EAC entered in the accounts of the EDF and the balance of the advances received shown in the accounts of the EAC, having taken into account the allocation time-lag of three months referred to under (b).

Reply of the Commission to paragraph 6.2

(a) The Court's remarks on the incompatibility of the functions carried out by the Commission official who acts as Auditor for the EAC accounts whilst also being responsible for the department which supervises EAC commitments prompt the following comments:

The function of EAC authorizing officer is in practice performed by the delegated administrator of the Association and not by the official responsible for performing the tasks of Auditor. It should also be borne in mind that, with effect from 1980, these comments of the Court on the subject of incompatibility of functions will cease to apply, because the activities administered by the EAC will be included in the budget.

(c) The advantage of submitting the EAC balance sheet and accounts in cumulative form — apart from the last financial year which appears separately for each category of expenditure — is that it facilitates comparison between the activities of the last financial year with previous results. In fact, it is the term used (balance sheet) which is incorrect; it would be more correct to refer to a revenue and expenditure account managed on behalf of the Commission; moreover, the Commission subsequently includes the EAC expenditure for each financial year in its own accounts.

(d) The Commission is already aware of the problem of how to record EAC exchange rate gains and losses in the accounts; the Auditor's Report for the financial year 1978 makes reference to this, requesting that a decision be taken on the matter. The Court will be kept informed as soon as a solution has been found.

(e) The sum of two million EUA — representing the difference between advances made to the EAC and expenditure entered in the accounts at 31 December 1978 by the Commission — is attributable to the fact that on this date there was still technical aid expenditure covering a three-month period to be cleared, as indeed the Court pointed out in its comments.

These transactions were regularized during the financial year 1979.

Imprests

6.3. During its visits of inspection to certain ACP States, the Court carried out detailed studies on the imprest accounts kept by the Commission delegations. It was found that these accounts were generally up-to-date and in order.

Contract of a technical adviser

6.4. During the on-the-spot audits carried out on the tea projects and in particular on the tea factories financed in an ACP State from EDF resources, the Court's attention was drawn to the activity and function of the technical adviser employed by the Commission. This expert's contract had, since 1970, been extended from year to year by successive amendments to the basic contract and the remuneration had been revised annually to take into account changes in the cost of living.

In 1970 it was justifiable to employ the services of an expert, since the Commission departments did not then have any great experience in the production of tea, the Commission delegations on the spot were not as well equipped with staff and the government departments of the ACP States were in general not in a position to participate in a satisfactory manner. Moreover, the duties of the expert were well-defined and limited in time (144 days, including 24 days overseas in 1970).

Reply of the Commission to paragraph 6.4

The Commission considered it necessary to continue to employ the services of this expert for obvious reasons. The assignment of a full-time adviser with expert status to the Commission delegation in every country where tea projects are being carried out would have been difficult, and above all very costly. The use of a consultancy for each project would likewise have been very costly. The advantages of the contract concluded with the expert are: (1) the low cost of the services, and (2) the flexibility in the contractual relationship. It is in fact laid down that the expert's missions are undertaken at the Commission's request. All the Commission would have to do, therefore, were it no longer satisfied with the expert's services (which is not the case) would be to stop granting mission orders.

6.5. In 1979 the situation is quite different. The Commission departments have in the meanwhile become widely experienced in implementing tea projects, the delegations on the spot have acquired extra staff to meet local requirements and the departments of the ACP States, sometimes assisted by experts employed by the EAC, play a greater part in the implementation of the projects.

Reply of the Commission to paragraph 6.5

While it is true to say that the Commission departments responsible have acquired a certain degree of experience of tea projects, it is also true to point out that the range of tasks entrusted to the expert could not be performed either by headquarters' officials or delegation staff.

6.6 Under these circumstances, the sense in keeping this expert under contract is no longer so clear. It should be noted, however, that the duties entrusted to the expert have continued to increase. During the first eight months of 1978, the design office, which has meanwhile been set up by this expert, was remunerated for 264 days of work.

Reply of the Commission to paragraph 6.6

The significant increase in the tasks given to the expert obviously reflects the expansion in tea projects. Since the Court mentioned the figure of 264 paid working days for the first eight months of 1978, it should be pointed out that several experts from the consultancy may be called upon to perform tasks relating to tea projects, that in the United Kingdom six days a week are regarded as working days and that, lastly, overseas missions are sometimes remunerated for all calendar days including Sundays and public holidays.

6.7. It should further be pointed out that outside his Community activities, the expert engages in other activities which could ultimately lead to a conflict of interests. The fact that the expert has to devote himself simultaneously to these two types of work may lead to delays in the completion of certain EDF projects. In any event, it is doubtful whether an expert working under such conditions could offer the same guarantees of independence as a Community official.

Reply of the Commission to paragraph 6.7

The Commission is aware of the expert's activities outside his Community activities but, in its opinion, these do not lead to a conflict of interests.

6.8. The Court believes that it should place emphasis upon this case because the expert participated in all stages of the tea-growing/tea factory projects and his advice was the determining factor in the tender of an investment estimated at 20 000 000 EUA (extension of factories or new factories). In addition, the present contract with the expert includes not only tea projects in progress, but also 'all such projects of a similar nature that may be financed from the resources of the EDF in the ACP States, signatories of the Lomé Convention'.

Reply of the Commission to paragraph 6.8

The lack of qualified staff in the construction and setting out of tea factories has necessarily led the Commission to give the expert a key role in the project involved.

But, like any other delegation adviser, the role of the expert has been limited to the drafting of proposals for technical opinions; the power of decision in the final choice of either technical solutions or contractors lies with the authorities and is subject to the agreement of the delegate or the Commission.

6.9. It may be noted in addition that the Commission has no special procedure for the recruitment of such experts or the renewal of their contracts.

6.10. The Court has pointed out in another connection that for three tea-growing/tea factory projects, including one which was carried out under State management (under the control of an ACP State), payments of the order of 250 000 EUA were made in Belgian francs into an account in Switzerland for a firm domiciled in Jersey.

Reply of the Commission to paragraph 6.10

Payments in Belgian francs were in fact made into a Swiss bank account on behalf of a firm in Jersey operating in Nairobi. The matter was put right some months ago and steps have been taken by the Commission to prevent any recurrence of this kind.

6.11. All the tea factories financed by the EDF use the same process for manufacturing tea, laid down after tendering by the expert concerned. During a recent mission in an ACP country, the Court visited a tea factory financed by private capital and using another procedure for manufacturing tea. While producing an excellent quality tea, the other system involves considerably lower investment and operating costs by using a more simplified technique. In view of this, the Court questions the reasons why the Commission continues not to extend, in practice, its invitations to tender to different procedures for manufacturing tea.

Reply of the Commission to paragraph 6.11

The Commission knows the tea factory which the Court of Auditors visited: compared with the tea factories financed from the EDF resources, it comprises two innovations, i.e.:

— *one concerning drying: the use of a fluid bed dryer,*

— *the other concerning the processing of leaves: the combined use of the LTP (Lawrie Tea Processing) and the CTC processes.*

The 'fluid bed dryer' is a new type of dryer which has apparently not yet been fully developed.

Moreover, this equipment is at present manufactured only in Sri Lanka (Colombo Commercial Company).

The LTP process has been in operation only for some 10 years. It is used mainly in one ACP country, where only mediocre quality teas are produced. It has been tried out in another ACP country (high-quality tea producer) and, as far as the Commission is aware, its use has been abandoned.

This process has two main advantages over the traditional processes (Rotorvane or Orthodox and Rotorvane — CTC used in factories financed by the Community), i.e.:

(i) lower investment cost;

(ii) easier and cheaper maintenance.

On the other hand, it requires more powerful generators (the LTP equipment needs a 60 hp motor whereas the motors used in conventional tea factories are generally no more than 15 hp), and very careful withering — which requires a high degree of skill on the part of the management staff (the factory mentioned by the Court of Auditors employed two expatriates).

The Commission has no preference for a particular process. Together with the national authorities concerned, the Commission came to adopt the CTC or Rotorvane processes as an administrative solution for safety reasons since the LTP process had not at the time fully proved itself.

However, since the calls for tender were sent out to general contractors and not to manufacturers, the specifications gave them the option of offering different equipment as an alternative, provided that their performance was at least equivalent to the equipment applied under the 'administrative solution'.

It goes without saying that the Commission will not hesitate to introduce another manufacturing process if the old one no longer meets requirements.

SECTION 7: EXCEPTIONAL AID

7.1. Article 59 of the Lomé Convention makes provisions for a special allocation of 150 MEUA for the financing of exceptional aid programmes for the benefit of ACP States who face serious difficulties resulting from natural disasters or similar extraordinary circumstances.

7.2. At 31 December 1978, the financing decisions relating to this type of project undertaken for the benefit of 27 countries amounted to 86 119 000 EUA. The final commitments totalled 82 361 000 EUA and the payments 57 970 000 EUA.

7.3. The circumstances which led to the financing decisions for the 27 States may be broken down as follows:

	(MEUA)
— political problems:	49·5
— drought:	17·6
— epidemics, human and animal:	12·2
— floods, cyclones:	5·3
— others:	1·5
	86·1

7.4. The amounts differ greatly from one operation to another and range from 20 000 EUA for the purchase of fishing nets for a village to 15 000 000 EUA for the import of goods for current consumpion in the case of a country struck by an economic crisis.

The period for decision at the Commission was reduced to an average of two months.

7.5. The Commission used the accelerated decision-making procedure as much as possible, when the amount of the transfer aid did not exceed 300 000 EUA (18 projects). This procedure was also used to grant an initial instalment of 300 000 EUA for seven larger requests.

7.6. According to the data available, the aid appears in general to have met the needs of the disaster-stricken communities. Nevertheless, the delay in the carrying out of certain operations puts in question, for the projects concerned, either the means chosen to provide for these needs or the procedures adopted to carry out the decisions.

In this way, 24 MEUA was allocated in May 1977 to three ACP States to finance the imports intended to meet economic problems connected with the disturbances in neighbouring countries. 12 and 18 months respectively were required to effect the payments to the first two countries, and 19 % of the sum intended for the third country remained unspent at 31 December 1978.

7.7. The implementation of projects met with difficulties in some of the Member States concerned. Thus, for example, one country did not possess sufficient means to transport all the goods chosen (12 000 tonnes of fertilizer could not be transported to their destination and could give rise to legal proceedings by the supplier).

The closure of two projects was delayed to enable the balances to be utilized for other purposes within the context of exceptional aid, but departing from that of the initial financing decision.

Reply of the Commission to paragraph 7.7

It is true that certain consignments of fertilizer (18 000 tonnes and not 12 000 tonnes) could not be transported within the short time limits. Difficulties concerning the delay in unloading the products arose between the supplier, the shipper and the recipient country but have not, to date, given rise to any legal action by the supplier.

The two cases referred to concern exceptional aid to two ACP countries. As far as one of these countries is concerned, a request was sent by this country to the Community following the two cyclones. Rather than make new funds available to the country, the Commission decided to use the funds remaining from previous exceptional aid (approximately 30 000 EUA). In the case of the other country, the Commission decided on exceptional aid in the form of school-building for the nomads as a part of the settlement programme. In view of the difficulties encountered in implementing this project, this country's Government has requested that the unused appropriations be allocated to fishing communities largely composed of resettled nomads (under the abovementioned programme). This application is now being examined.

7.8. In nine cases, the Community aid took the form of the supply of goods, whose proceeds of sale had either to be transferred to a fund in order to carry out a development project or to constitute reserves for essential requirements. In the majority of cases, the State concerned did not supply any report on how these funds were utilized and the Commission did not undertake any audit.

Reply of the Commission to paragraph 7.8

In nine cases Community aid covered the supply of goods the proceeds from the sale of which were to be paid into a special account for the execution of development projects or the establishment of emergency reserves. In half the cases reports have been submitted and an inspection carried out by the Commission.

7.9. For this type of aid, it is sometimes difficult for the Commission to determine accurately, in the short space of time available, the exent of the damage caused by the exceptional situation and to choose the most suitable means — which may consist of works, supplies or the provision of services, as well as cash payments.

7.10. The projects relating to exceptional aid are sometimes complemented by the intervention measures of Stabex or by the emergency food aid financed from the Commission's budget.

SECTION 8: STABILIZATION OF EXPORT EARNINGS

8.1. Title II of the Lomé Convention deals with the stabilization of earnings arising from the export of certain basic products for which a maximum intervention of 375 MEUA was laid down for the years 1975 to 1979, subsequently increased to 380 MEUA on the accession of the new ACP States.

Again, the OCT benefit from a system which operates alongside Stabex and which is allocated a sum of 20 MEUA.

Observations on the transfers and their method of calculation

8.2. At 31 December 1978, 31 ACP States and OCT had benefited in the three years of application 1975, 1976 and 1977 from 72 transfer decisions relating to 15 categories of product for a total of 147 609 184 EUA.

In the case of the ACP States, there were 55 non-repayable transfers for a total of 102 817 029 EUA and 10 repayable transfers totalling 40 597 773 EUA.

In the case of the OCT, there were two non-repayable transfers for a sum of 1 338 057 EUA and five repayable transfers for a sum of 2 856 325 EUA.

8.3. The balance of the total allocation available at 31 December 1978 for the last two years of application (1978 and 1979) was 241 284 885 EUA for the ACP States, 2 332 097 EUA of which represents the reimbursements requested. For the OCT, this balance amounts to 13 499 161 EUA, taking account of a repayment of 61 133 EUA.

8.4. For the first three years of application, five ACP States shared 82 711 011 EUA, i.e. almost 60 % of the transfers. In all, 26 ACP States received one or more transfers and six received one or more transfers each year.

During this same period, five products (wood, groundnuts, cotton, sisal and coffee) were the cause of 75 % of the amounts transferred.

8.5. From the first transfer relating to iron ore, the only non-agricultural product of the Stabex system, it has been clear that the provisions of Title II of the Lomé Convention did not take into account the special characteristics of a mining product.

For the first three years of application three ACP States received Stabex transfers for this product for a total of 10 951 753 EUA. In addition, one advance of 7 000 000 EUA was paid for the year 1978.

In one of the three ACP States concerned, the fall in exports was due to the stoppage of work in the mine following the insolvency of the mining company and in a second ACP country it was due to termination of activities by reason of the mineral resources being exhausted.

In reliance on Article 16 of the Convention, the Commission, in these cases, deducted from the calculation basis of the transfer, the amount in currency which should have been spent for the normal activity of the mining company (dividends, capital outflow, machinery, etc.). Since these factors are not easily calculable, the result could only be an approximation.

Reply of the Commission to paragraph 8.5

It is true that iron ore is an unusual item to be covered by the Stabex system, which was developed solely to offset fluctuations in the production and marketing of agricultural products.

The Community has always been aware of the difficulties arising from the inclusion of a mining product in the system, and indeed this is expressed in the Community declaration appended to Article 17 of the Lomé Convention. Furthermore, the arrangements in the new Convention for the other mining products are totally different from those in the Stabex system.

Advances

8.6. Although Article 19 (6) of the Lomé Convention prescribes that transfers should be made rapidly, in particular by means of six-monthly advances, the first five advances to four ACP States, representing a total sum of 27 670 000 EUA were not made until 1978.

8.7. During the first three years of application, the facility for obtaining advances not having been used, the ACP States only received their transfers between 6 and 18 months after the loss had been recorded.

Reply of the Commission to paragraph 8.7

The Commission understands this comment to be referring to the retrospective nature of the system. Because of this, it is quite possible that such delays should occur. They may even be longer and the brackets wider.

The most important aspect of the overall management is the time between the submission of the transfer request and actual payment. The following information on this time-lag may be of use:

Implementation year (1)	*Average time in months —straight-forward cases* (2)	*Cases of type (2) as a percentage of all the year's transfers* (3)	*Average time-lag for all transfers* (1) (4)
1975	*3*	*89·5*	*4*
1976	*2·5*	*44·0*	*3*
1977	*4*	*49·0*	*8*
1978 (estimate)	*2·5*	*75·0*	*4·5*

(1) *Clearly, if a transfer request requires statistical research or consultations under Article 19 (4), the requesting ACP State and the Commission will require further time for investigation if the system is to work efficiently.*

Reference period

8.8. In order to implement the Stabex system a reference level is calculated for each ACP State and for each product. This reference level corresponds to the component of export earnings during the four years preceding each year of application (Article 19 (1) of the Lomé Convention).

Departing from the provisions of the Convention on the basis of the statement made by the Community at the second session of the ACP-EEC Council of Ministers at Fiji, the Commission, in calculating the reference level for two Stabex transfers, considered reference years other than the four preceding the year of application.

Calculation basis for transfers

8.9. When an ACP State considers that it fulfils the conditions for benefiting from a Stabex transfer, it forwards its request, together with supporting documents, to the Commission. The Commission examines the request.

The statistics applied for the implementation of the system are those obtained by cross-checking the statistics of the ACP States and of the Community, account being taken of the fob values.

8.10. The Commission calculates the amount to be transferred and draws up a transfer agreement, which is signed by the beneficiary and by the Commission. The sum is paid to the beneficiary State.

In the absence of well-defined rules for arriving at the statistics which should serve as the basis for the calculation of the transfer, the figures finally adopted owe more to negotiations than to mathematical analysis, with the result that in certain cases the actual amount of the transfer exceeds that of the initial request; in other cases, it is equal or lower.

The difference between the transfer requested by the ACP State and the actual transfer arises mainly from the cross-checking and the determination of the cif/fob factor. There is also the influence of currency conversions needed for the calculation of the transfer.

During a transfer for a subsequent implementation year to the benefit of one ACP State and for the same

product, the Commission automatically calculates these new transfers on the basis of the same statistical sources used on the calculation of the first transfer. There was thus no new cross-checking of statistics relating to the new implementation year, contrary to the provisions of the Lomé Convention.

Reply of the Commission to paragraph 8.10

On the subject of cross-checking, the Commission refers to the answers it gave to point 74 in Chapter 7 of the Court's report for 1977.

When negotiating the new Convention, the Commission was anxious to introduce an automatic cross-checking system by ensuring that the statistics used for the implementation of the system were those given by multiplying the unit values of the exports of the ACP State concerned, as given in the statistics of that ACP State, by the quantities imported by the Community, as given in community statistics.

However, it resulted from negotiations that this formula could not be accepted as the only solution to the problem.

Thus, throughout the period of validity of the new Convention, the requesting ACP State, when it submits its request, will choose between the system provided for by the Lomé Convention and the abovementioned formula.

It is true that the actual amount of the transfer may be higher than, equal to or lower than the amount originally requested by the ACP State once it has been converted from EUA into the State's local currency. However, as all the elements of the system affect the calculation of a transfer, it is impossible to identify the precise effect on the final amount of each one of these elements.

If, for example, figures from the ACP State are used as the basis for calculating the transfer, the cross-checking and the cif/fob factor are immaterial and any discrepancy in amounts is due entirely to the effect of monetary operations and — where applicable — a reduction under Article 19 (4) (b). The situation is more complicated if figures agreed with the ACP State during cross-checking partially or completely reflect the EEC import figures. In such a case, the solution to the problem of cross-checking and cif/fob factors would have more impact and produce the result mentioned by the Court [1].

In any event, there is no indication that cross-checking and the determination of the cif/fob factor have any more impact than currency conversion.

Lastly, as Stabex operations are expressed in EUA, as laid down in the Convention, the amounts in the national currencies of the ACP States shown on transfer request forms are of value only in showing whether the thresholds of dependence and fluctuation have been crossed.

It is essential to use national currency for this, in fact, because — apart from those countries benefiting from the derogation in Article 17 (4) — the EUA concept is inapplicable for an ACP State as a means of measuring its exports to non-Community countries.

In the second subparagraph of this point, the Court is referring to a practice followed by the Commission's departments in the case of successive transfers for the same product, namely keeping to the cross-checking formula adopted for the first transfer. This means that if, for example, it was decided to use the straight EEC figures (or the straight ACP figures, or any other formula) for cross-checking the first transfer, figures for a subsequent implementation year will be cross-checked in the same way, without amending the formula originally adopted. The Commission considers that this continuity arrangement is in keeping with the Stabex system which requires rapid transfers carried out as automatically as possible.

There is one exception to this procedure, however: so as to avoid following it blindly, it only applies 'if no new information comes to light'. If, for example, the Commission's departments discover that the operation of the statistical departments of an ACP State gives serious cause for concern, the Commission will not accept the export figure returned by that Member State at its face value if the method used for the initial cross-checking was to base calculations on the ACP figures.

To conclude, therefore, the Commission considers that it is wrong to say that there is no cross-checking in the case of successive transfers. The Commission fulfils all

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[1] *See the Commission's answer to the Court's 1977 report regarding cross-checking and the cif/fob factor.*

its cross-checking obligations: however, to date, there have only been rare cases where 'new information' was felt to be sufficiently important to justify the use of a different cross-checking arrangement to that originally adopted. Any disagreement between the Court and the Commission on this matter can only be due to slightly different interpretations of the meaning of 'new information'.

8.11. Following the observations of the Audit Board for the financial year 1976, on 30 October 1978 the Council advised the Commission to draw up 'cross-checking reports' for all cases in which cross-checking takes place.

Reply of the Commission to paragraph 8.11

With regard to the Council's recommendation to the Commission of 30 October 1978, the Commission stated that it was willing, as far as its capabilities and resources allowed, 'to draw up cross-checking reports:

(i) for all cases in which, for the implementation years 1978 and 1979, there are grounds for cross-checking, i.e. when the transfer requests in question concern situations for which the Commission does not yet have cross-checked figures;

(ii) and for cases in which the bases for cross-checking are not Community import statistics'.

8.12. The Court had established on the spot that significant disparities existed between the statistics communicated by one country to the Commission and those originating from other official statistical sources of the same country.

Reply of the Commission to paragraph 8.12

The departments responsible for managing the system are well aware that in almost all ACP States, there are at least two different sources drawing up different figures which at first sight seem to refer to the same trade flows. However, these sources are always found to be using very different methods, a fact which explains the Court's findings (1).

(1) *In theory, there are two main methods: one is based on information provided by the exporters and records exports as products physically leave the country, the other records exports when payments for past exports arrive in the country.*

The Commission's departments have investigated the available sources on the spot and in each case have selected on its relative merits the source which seemed the most suitable and reliable.

8.13. A transfer was calculated by the Commission on the basis of provisional figures communicated by the ACP State. Although the ACP State had forwarded the revised and final figures before the transfer was paid, which should have led to a reduction in the transfer, the Commission did not take this official communication into account.

If provisional figures are used in the calculation of Stabex transfers, such transfers should be considered as advances or provisional transfers, to be confirmed within a set period.

Reply of the Commission to paragraph 8.13

The Agreement relating to the transfer mentioned ran as follows:

— *date of transfer proposal:*	*21 April 1976,*
— *date of Commission decision:*	*6 July 1976,*
— *date of signature of Agreements:*	*8 July 1976,*
— *date of payment order:*	*28 July 1976,*
— *date of payment:*	*9 August 1976.*

The revised figures for 1975 were sent on 15 July 1976 and received by the Commission's departments on 23 July 1976.

However, by this time the Commission had already made its decision and the Transfer Agreement had been signed. The Commission's departments have already explained why it did not seem worth revoking the transfers already decided upon (cases would have had to be reopened every time the statistics used were revised, since they were considered to be the best available at the time the decision was taken).

The Commission would refer to its answer to point 80 of Chapter 7 of the Court's report for 1977.

The Lomé Convention does, however, clearly state that 'the Commission shall, in conjunction with the requesting ACP State, draw up a draft Decision to make a transfer' (Article 19 (5)), and 'for each transfer a "Transfer Agreement" shall be drawn up and concluded between the Commission and the ACP State concerned'

(Article 22). In the Commission's opinion, it is quite clear that each transfer request should result in one single, properly-agreed, fixed amount. Any other approach would cause delays which would contravene Article 19 (6) of the Convention and the spirit of the Court's remark on point 8.7.

8.14. The Stabex system only applies to the exports of products originating in the ACP States concerned. Certification by the ACP State that the products originate from that country, is at present performed automatically because the transfer request form to be completed by the ACP State contains a printed clause 'To be completed on the basis of the certificates of origin issued by the national authorities'.

The Court, having established on the spot the absence of such certificates of origin in an ACP State receiving Stabex transfers, wonders what guarantees the Commission has to satisfy itself that the transfer is merited.

Reply of the Commission to paragraph 8.14

The Commission's departments do not normally require certificates of origin to be submitted when investigating a transfer request (1).

The guarantees the Commission has are:

(i) the signature of a high official or a minister in the ACP State on the transfer request form which contains the clause referred to by the Court. By signing this form, the signatory assumes responsibility not only for the accuracy of the figures but also for ensuring that Article 17 (5) of the Convention is complied with;

(ii) knowledge of the economy and production capacity of the requesting ACP State.

8.15. The Court again established that the wrong exchange rate was used to calculate two transfers, which resulted in a reduction by 1 807 EUA of the sum transferred.

(1) *However, in one case where the Commission's departments had some doubts as to whether Article 17 (5) of the Convention was being respected, they asked for certificates to be submitted. The ACP State complied with this request to their complete satisfaction.*

Reply of the Commission to paragraph 8.15

It is true that a rate of 97·3980271 was used instead of the rate of 97·7083. The reason for this error, which had very little effect, is that the programmes intended to process the transfers of countries covered by the provisons of Article 17 (4) had still not been drawn up and that the rate used was obtained by combining several other rates.

Disputes

8.16. In 1977, three countries submitted late requests for transfers for the year 1975 and the Commission considered these requests inadmissible.

The ACP-EEC Council of Ministers therefore agreed to initiate the good offices procedure provided for by Article 81 (2) of the Lomé Convention. As a result of this procedure, the Commission was invited to re-examine the three requests.

The question may be raised what manner of stabilization these transfers, which at best will be effected in 1979, will achieve of export earnings for the year 1975.

Reply of the Commission to paragraph 8.16

The answer to the Court's question in the third subparagraph is given by the correct statement of the facts in the second subparagraph of the same point.

Observations on the reconstitution of Stabex resources

8.17. In practice, most of the transfers to the least-favoured countries need not be repaid, by virtue of Article 21 (5) of the Convention.

For other more favoured countries, the sums transferred, not bearing interest, are reimbursable under two conditions.

To this effect, the Commission determines, for each year and for each product of the countries concerned, whether the unit value of the exports is higher than the reference unit value and whether the quantity actually exported to the Community is at least equal to the reference quantity.

If these two conditions are met at the same time, the recipient State makes a repayment to the system, within the limit of the transfers it has received.

During an audit, the Court established that the Commission department responsible has a programme for calculating the reconstitution of funds, but that there is no guarantee of its uniform application.

8.18. If, on expiry of the five-year period after the transfer, the resources have not been fully reconstituted, the Council of Ministers may decide that the sums outstanding are to be reconstituted wholly or partially, in one or more instalments, or that the right to repayment be waived (Article 21 of the Lomé Convention).

8.19. At 31 December 1978, 10 repayable transfers for a total of 40 597 773 EUA were effected for the benefit of the ACP States, as against 55 non-repayable transfers.

In the case of the OCT there were five repayable transfers for a total of 2 856 325 EUA as against two non-payable transfers.

Repayments made up until 31 December 1978 involve three countries and four transfers and total 2 379 469 EUA, including 61 133 EUA emanating from an OCT.

8.20. In order to determine each year if the conditions for repayment by an ACP State or OCT exist, the Commission in every case bases itself on the figures originating from the same statistical source as that which itself served as a basis. That is to say, for all the transfers for which the ACP statistics have been used in the calculation of the transfer, the conditions for reconstitution are examined solely on the basis of the ACP statistics, whereas by Article 21 (3) the Commission should also cross-check the statistics of the Community and of the ACP States, before using, where necessary, the ACP statistics.

Reply of the Commission to paragraph 8.20

It is clear that the amounts to be repaid to this system for the reconstitution of each transfer can only be determined from the statistical information on the basis of which the transfer was calculated as in the case of successive transfers (see paragraph 8.10).

Any other procedure would be bound to create distortions since a debt can only be calculated on the basis of the facts which gave rise to that debt.

Consequently, the reference in Article 21 (3) to the rules laid down in Article 17 (1) can only refer to the result of the cross-checking which was carried out before the transfer and not the cross-checking on which any repayment has to be based.

8.21. The Court found that in the annual calculation for possible reconstitution of Stabex transfers:

— the unit value of the exports in the statistics applied was nearly always higher than the reference unit value (first condition for repayment),

— the quantity actually exported to the EEC on the other hand was not at least equal to the reference quantity (second condition) except for three ACP States and OCT having actually reimbursed 2 379 469 EUA.

8.22. When total exports to all destinations of the product which occasioned the transfer show a significant increase, but their share to the EEC does not exceed the quantity which served as a reference for the transfer, the Commission might usefully analyze the phenomenon within the spirit of Article 19 (4) of the Convention. In this way it could satisfy itself that the change in the trend of exports is not due to a policy chosen by the beneficiary State in order to avoid repayment.

Reply of the Commission to paragraph 8.22

It is true that in almost all cases where a transfer which should have been reconstituted is not, that is due to the fact that the second condition in Article 21 (3) is not met. In fact, world inflation inflates unit values to a level which is always higher than the average unit values during the reference period while the economies of the EEC Member States may not always be strong enough to absorb extra quantities in those same years.

However, if in these circumstances the Commission's departments notice a considerable increase in exports of the product concerned to all other destinations — which would have enabled the ACP State to export greater quantities to the EEC and thus to fulfil the second conditions of reconstitution — the Commission does not feel that it can accuse the ACP State of fabrication in order to obtain reconstitution as it has no control over the situation.

It is a different matter in the case mentioned by the Court where the ACP State tries to avoid meeting the conditions for reconstitution by a deliberate policy. Firstly, it should be made clear that the Commission does not have sufficient information to prove that these

policies exist, and secondly, even if it were possible to prove such conduct, the Commission would not feel it could apply Article 19 (4) (b) as this only covers transfers. This omission from the Lomé Convention was remedied in negotiations for the new Convention by stipulating that the same rules apply to reconstitution as to transfer requests.

8.23. Article 53 (3) of the Financial Regulation of 27 July 1976 specifies that, for payments relating to the contributions towards the reconstitution of Stabex resources, the conversion rates to be used between EUA and the currency or currencies used for payment shall be those in force on the 10th day preceding payment.

Article 2 (2) of the various Transfer Agreements, signed by the Commission and the beneficiary States, lays down that the rates of exchange to be used are those in force on the day prior to the day on which the operation is carried out.

Reply of the Commission to paragraph 8.23

This is correct. Even though in practice this detail is not particularly important, the Commission does try to harmonize deadlines in the different documents when drafting new Agreements, since the new Convention came into force.

Table 78. Breakdown of Stabex transfers by ACP State and by year of application as at 31 December 1978

(EUA)

ACP State	1975		1976		1977		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Niger	5 949 041	8·1	6 909 260	18·3	9 795 659	30·3	22 653 960	15·8
Benin	7 129 848	9·7	3 515 923	9·3	4 762 327	14·7	15 408 098	10·7
Tanzania	1 887 082	2·6	5 165 208	13·7	8 176 614	25·2	15 228 904	10·6
Ivory Coast	15 000 000	20·5	—	—	—	—	15 000 000	10·5
Ethiopia	14 420 049	19·6	—	—	—	—	14 420 049	10·0
Congo	7 361 677	10·0	—	—	—	—	7 361 677	5·1
Uganda	1 748 932	2·4	3 649 744	9·7	—	—	5 398 676	3·8
Guinea Bissau	—	—	5 069 403	13·5	146 839	0·5	5 216 242	3·6
Ghana	5 176 408	7·1	—	—	—	—	5 176 408	3·6
Cameroon	3 601 423	4·9	463 558	1·2	—	—	4 064 981	2·8
Sierra Leone	—	—	3 977 274	10·6	—	—	3 977 274	2·8
Mauritania	—	—	—	—	3 605 602	11·1	3 605 602	2·6
Swaziland	—	—	—	—	3 368 878	10·4	3 368 878	2·4
Madagascar	—	—	2 902 453	7·7	—	—	2 902 459	2·0
Togo	2 680 324	3·7	—	—	—	—	2 680 324	1·9
Fiji	615 140	0·8	1 499 839	4·0	—	—	2 114 974	1·5
Western Samoa	276 978	0·4	1 680 537	4·4	99 313	0·3	2 056 828	1·4
Upper Volta	861 175	1·1	—	—	1 169 977	3·6	2 031 152	1·4
Somalia	1 932 145	2·6	—	—	—	—	1 932 145	1·4
Comoros	298 304	0·4	286 508	0·8	1 090 927	3·4	1 675 739	1·2
Sudan	1 658 580	2·3	—	—	—	—	1 658 580	1·2
Mali	648 503	0·9	848 489	2·2	—	—	1 496 992	1·0
Burundi	1 485 655	2·0	—	—	—	—	1 485 655	1·0
Tonga	—	—	904 439	2·4	—	—	904 439	0·6
Central African Empire	353 108	0·5	549 807	1·5	—	—	902 915	0·6
Jibuti	256 894	0·4	265 328	0·7	169 629	0·5	691 851	0·5
Total	73 341 263	100·0	37 687 772	100·0	32 385 064	100·0	143 414 802	100·0

Table 79. Breakdown of Stabex transfers by overseas country and territory and year of application as at 31 December 1978

(EUA)

OCT		Sawn wood	Copra	Total
Belize	1975	139 650	—	139 650
	1976	—	—	—
	1977	202 714	—	202 714
	Total	342 364		342 364
Gilbert Islands	1975	—	—	—
	1976	—	1 083 098	1 083 098
	1977	—	—	—
	Total		1 083 098	1 083 098
New Hebrides	1975	—	1 103 499	1 103 499
	1976	—	327 364	327 364
	1977	—	—	—
	Total		1 430 863	1 430 863
Solomon Islands	1975	—	—	—
	1976	—	1 273 640	1 273 640
	1977	—	—	—
	Total		1 273 640	1 273 640
Tuvalu	1975	—	—	—
	1976	—	64 417	64 417
	1977	—	—	—
	Total		64 417	64 417
Total	1975	139 650	1 103 499	1 243 149
	1976	—	2 748 519	2 748 519
	1977	202 714	—	202 714
	Grand total	342 364	3 852 018	4 194 382

SECTION 9: INDUSTRIAL COOPERATION

9.1. The Court examined the utilization of the subsidy granted for the financial year 1978 to the ACP/EEC Centre for Industrial Development (CID), charged to the fourth EDF. It also checked the use of the carry-overs of appropriations for 1977, decided upon by the director of the CID, at 31 December 1977 in the absence of a revenue and expenditure account and a balance sheet.

9.2. The total appropriations of the CID available for the financial year 1978 is 2 886 442 EUA, comprising appropriations for 1978 totalling 2 360 000 EUA and carry-overs of appropriations from the previous financial year amounting to 526 442 EUA, i.e.

40 % of the budget for the corresponding financial year.

75 % of the appropriations for the financial year were committed and 65 % paid out. 65 % of the carry-overs of appropriations were committed and authorized. At the final closure of the financial year 1977 on 31 December 1978 and after the utilization of the carry-overs, there was a saving of appropriations totalling 185 768 EUA, i.e almost 15 % of the corresponding initial budget.

9.3. The audit again revealed that certain provisions of the Financial Regulation are still not observed. Thus, for the operational expenditure, no account was kept of commitments; for the intervention expenditure, these accounts are not kept by the double entry method. The nomenclature of budgetary items on the accounting chart does not make a clear distinction between the accounts which enable the balance sheet, and those which enable the revenue and expenditure account, to be drawn up.

During the second half of 1978, cheques and postal or bank transfers were signed by the director and the head of administration. These payment orders, which should of necessity be signed by the accounting officer, did not bear the signature of the person responsible for the accounting work, who had taken up office on 1 June 1978. As from July 1978, the head of administration also had delegated to him the duties of the authorizing officer for expenditure of less than 1 000 francs. This limit has been exceeded time and again. For five months the principle of the separation of the duties of the authorizing officer and the accounting officer was not strictly observed.

9.4. At the management level, the Court established that excess remuneration paid to the staff in 1977 was recovered in 1978. The travel expenses and entertainment or other allowances are reimbursed or covered by the CID on the basis of a declaration made by the claimant, and sometimes even without the support of documentary evidence. The management of the advancing of funds to the CID staff and to contractors is too lax. The terms of the contracts are often very vague and easily give rise to confusion or allow for improper interpretation (for example, invoicing to the CID of expenses incurred during missions beyond the limits generally accepted for the CID staff). For certain contractors, there is confusion of interests between the various contracts concluded with the CID (e.g. contracts with public or private organizations). The employment of experts on short-term contracts makes it possible, by successive renewals, to exceed the budgetary staff by several units. The trainees, experts or other persons under contract profit under certain conditions from the laxity of management (travel expenses, advances, imprecise supporting documents, etc. . . .). Petty cash expenditure remains high.

From the second half-year, the management improved. Compliance with the legislative and administrative provisions grew more consistent, if still not strict.

9.5. On 5 October 1978, the director forwarded to the Secretaries of the ACP-EEC Council of Ministers the report on its activities for the period 1 September 1977 to 30 September 1978.

Reply of the Commission to Section 9

Just as last year in its comments on the Court of Auditors' report on 1977, the Commission makes no comments on the part of the report relating to the management of the Centre for Industrial Cooperation. This is a joint ACP/EEC body and there are two auditors responsible for inspecting its accounts. One of these belong to the Communities' Court of Auditors.

In order to avoid duplication, the Commission will leave it to these experts to make their comments. These will be examined shortly by the bodies responsible for ACP in the Communities and by the responsible ACP/EEC bodies.

ANNEX I

Statistics relating to the general budget and to the European Development Funds

Introduction

1. Monetary units

As in the 1977 Statistical Annex, this Annex sets out not only the situation for the year under review, but also a series of historical comparisons.

The introduction of the European unit of account (EUA) into the general budget poses certain problems in this respect. 1977 was the last year in which the budget was expressed in IMF units of account (u.a.). As from 1978 it has been drawn up and executed in EUA. Since these two units are calculated on different bases they are not directly comparable. In view of this the statistics on the general budget given here show, without conversion, the amounts for the years prior to 1978 in u.a. and those for 1978 in EUA.

The problem has been resolved as follows in respect of the European Development Funds: after the introduction of the EUA in the fourth Fund, it was agreed that for the first three Funds, which were originally drawn up in u.a., the conversion rate 1 u.a. = 1 EUA would be adopted. The time series of all the Funds can thus be expressed in EUA.

2. Source of data

The figures in this Annex have been drawn from the revenue and expenditure accounts and the balance sheets of the European Communities and of the European Development Funds and from other detailed records provided by the Commission.

3. Presentation of monetary data

The monetary data are expressed in millions of EUA (abbreviated to MEUA) or in millions of u.a. (abbreviated to m.u.a.); they have been rounded off to 10ths of a million. '0·0' means 'between zero and 0·05'; '-' means 'nil'.

As the figures have been rounded off, the totals shown in the tables do not always correspond to the exact sum of the amounts given in the tables.

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Part I: general budget of the European Communities

1. Background information on the general budget

Summary

(a) **Origin**

Created by the merger Treaty (1) (Article 20), the general budget replaced on 1 January 1968 the ECSC estimate of administrative expenditure and the EEC and Euratom budgets. With one exception: the Euratom research and investment budget was only incorporated in the general budget in 1971 by the Treaty of Luxembourg (Article 10).

(b) **Legal basis**

The financial provisions of the Treaties of Paris (2) and Rome (3) (4) (Article 78 of the ECSC Treaty, Articles 199 to 209 of the EEC Treaty and Articles 171 to 183 of the Euratom Treaty) and their amendments resulting from the merger Treaty (Articles 20 to 22), the Decision on own resources (5), the Treaty of Luxembourg (6), the Treaty of Accession (7) (Articles 127 to 132), and the Treaty of Brussels (8).

(c) **Financial Regulations**

Financial Regulations lay down the procedures and rules on the establishment and implementation of the budget, the presentation and the audit of accounts.

— Prior to 1978: Financial Regulation of 25 April 1973 (OJ No L 116, 1. 5. 1973) (amended by the Financial Regulation of 18 March 1975 (OJ No L 73, 21. 3. 1975)) and by the Financial Regulation of 21 October 1976 (OJ No L 333, 2. 12. 1976).

— As from 1 January 1978: Financial Regulation of 21 December 1977 (OJ No L 356, 31. 12. 1977).

(d) **Structure**

— The general budget consists of five separate sections subdivided into statements of revenue and expenditure: **(I) Parliament, (II) Council** (annexed: Economic and Social Committee; until 1977 Audit Board and ECSC Auditor), **(III) Commission, (IV) Court of Justice, (V) Court of Auditors** (as from 1977).

— Within each section, the items of revenue and expenditure are classified according to their type or the use to which they are assigned under titles, chapters, articles and items.

(e) **Nature of the appropriations**

Owing to the differing financing problems of the various sectors, funds may be allocated as **differentiated** or **non-differentiated appropriations.** The financing of multiannual

(1) Merger Treaty (8 April 1965): Treaty establishing a single Council and single Commission of the European Communities (OJ No 152, 13. 7. 1967).
(2) Treaty of Paris (18 April 1951): Treaty establishing the European Coal and Steel Community (ECSC).
(3) Treaty of Rome (25 March 1957): Treaty establishing the European Economic Community (EEC).
(4) Treaty of Rome (25 March 1957): Treaty establishing the European Atomic Energy Community (Euratom).
(5) Council Decision 70/243/ECSC, EEC, Euratom of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources (OJ No L 94, 28. 4. 1970).
(6) Treaty of Luxembourg (22 April 1970): Treaty amending certain budgetary provisions of the European Communities' Treaties and of the merger Treaty (OJ No L 2, 2. 1. 1971).
(7) Treaty of Accession (22 January 1972): Act concerning the conditions of accession and the adjustments to the Treaties (OJ No L 73, 27. 3. 1972).
(8) Treaty of Brussels (22 July 1975): Treaty amending certain financial provisions of the European Communities' Treaties and of the merger Treaty (OJ No L 359, 31. 12. 1977).

activities gave rise in certain sectors to **differentiated appropriations,** which are divided into **commitment appropriations** and **payment appropriations. Commitment appropriations** cover, for the current financial year, the total cost of the legal obligations entered into for activities whose implementation extends over more than one financial year; **payment appropriations** cover expenditure arising from commitments entered into in the current financial year and/or preceding financial years.

The total **appropriations for commitment** are obtained by adding the **commitment appropriations** (differentiated appropriations) to the total of **non-differentiated appropriations** (i.e. the appropriations from the sectors in which no distinction is made between commitment appropriations and payment appropriations). The total **appropriations for payment** are obtained by adding the **payment appropriations** (differentiated appropriations) to the total of **non-differentiated appropriations.**

(f) **Monetary unit of the budget**

— Until 1977 the budget was established and implemented in **IMF units of account (u.a.).**

— From 1978 onwards the budget has been established and implemented in **European units of account (EUA).**

(g) **Establishment of the budget**

The procedure for the establishment of the budget is governed by Article 78 of the ECSC Treaty, Article 203 of the EEC Treaty and Article 177 of the Euratom Treaty. These provisions underwent several major changes following the Treaties of Luxembourg (Articles 1, 2, 4, 5, 7 and 8) and of Brussels (Articles 2, 12 and 20).

(h) **Financing**

During the period 1968-70 the financing of the general budget was ensured by **financial contributions of the Member States** (Article 200 of the EEC Treaty and Article 172 (1) of the Euratom Treaty) and by an ECSC contribution (Article 20 of the merger Treaty). Pursuant to Council Decision 70/243/ECSC, EEC, Euratom of 21 April 1970 (OJ No L 94, 28. 4. 1970) the financial contributions are being replaced progressively as from 1971 by **own resources** (customs duties, agricultural levies, sugar levies, VAT).

(i) **Implementation**

The Commission implements the budget in accordance with the Financial Regulation in force on its own responsibility; authority for the implementation of its section of the budget is conferred upon each of the other institutions.

(j) **Audit**

— during the period 1968-76: by the Audit Board.

— As from the financial year 1977: by the Court of Auditors of the European Communities.

(k) **Discharge**

— 1968-70: The Council gives discharge to the Commission on the implementation of the budget and forwards its decision to Parliament.

— 1971-76: In accordance with the Treaty of Luxembourg, the Council and Parliament give discharge to the Commission.

— As from 1977: In accordance with the Treaty of Brussels, the Parliament, on the recommendation of the Council, gives discharge to the Commission.

Diagram No 1

2. General budget 1978: estimated revenue
(after supplementary and amending budgets)

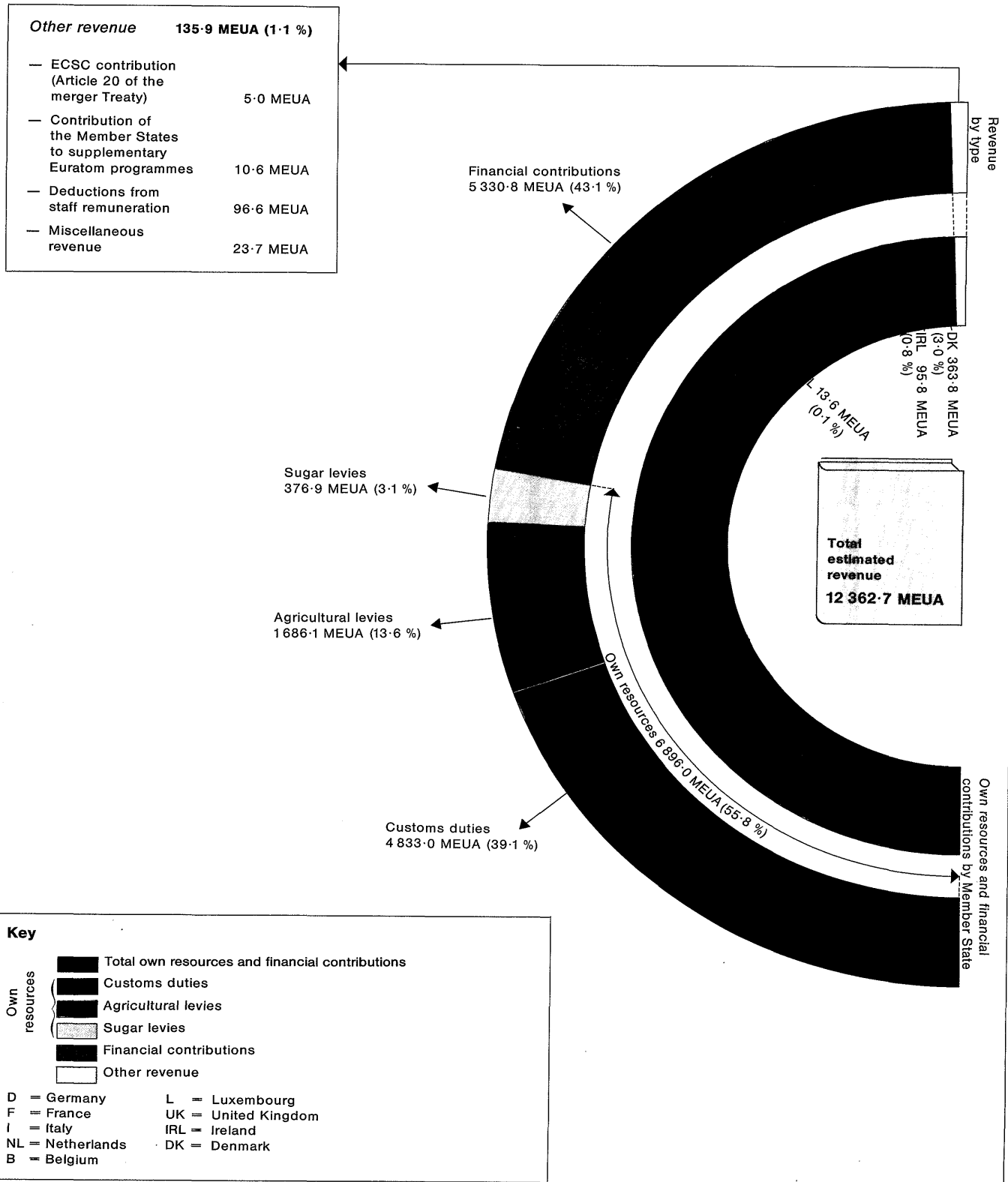


Diagram No 2

3. General budget 1978: estimated expenditure — appropriations for payment
(after supplementary and amending budgets)

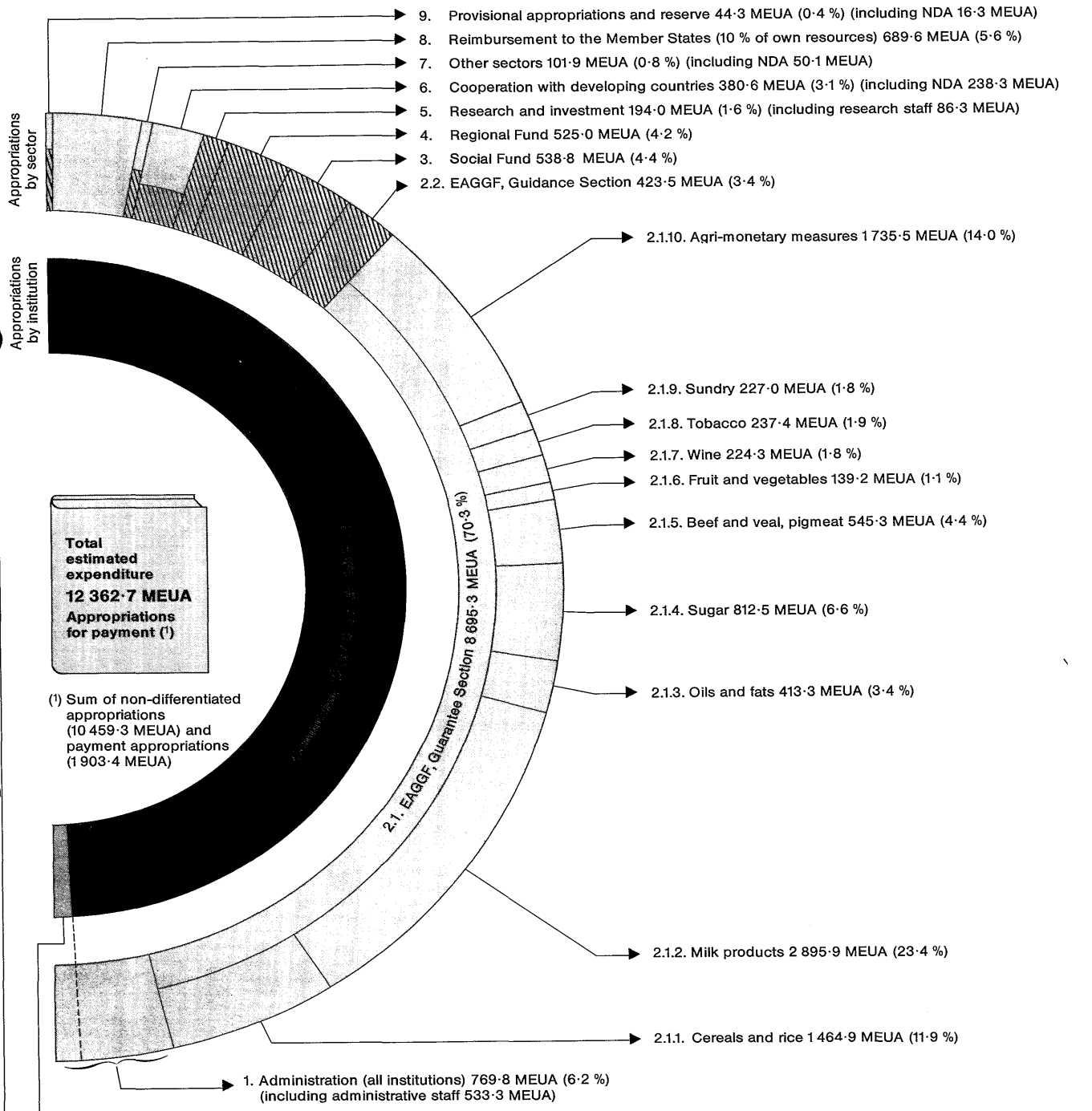
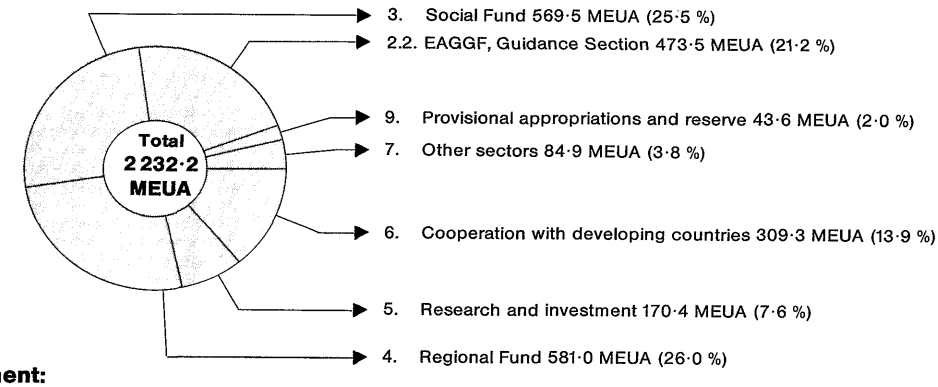


Diagram No 3

4. General budget 1978: estimated expenditure — commitment appropriations, appropriations for commitment
(after supplementary and amending budgets)

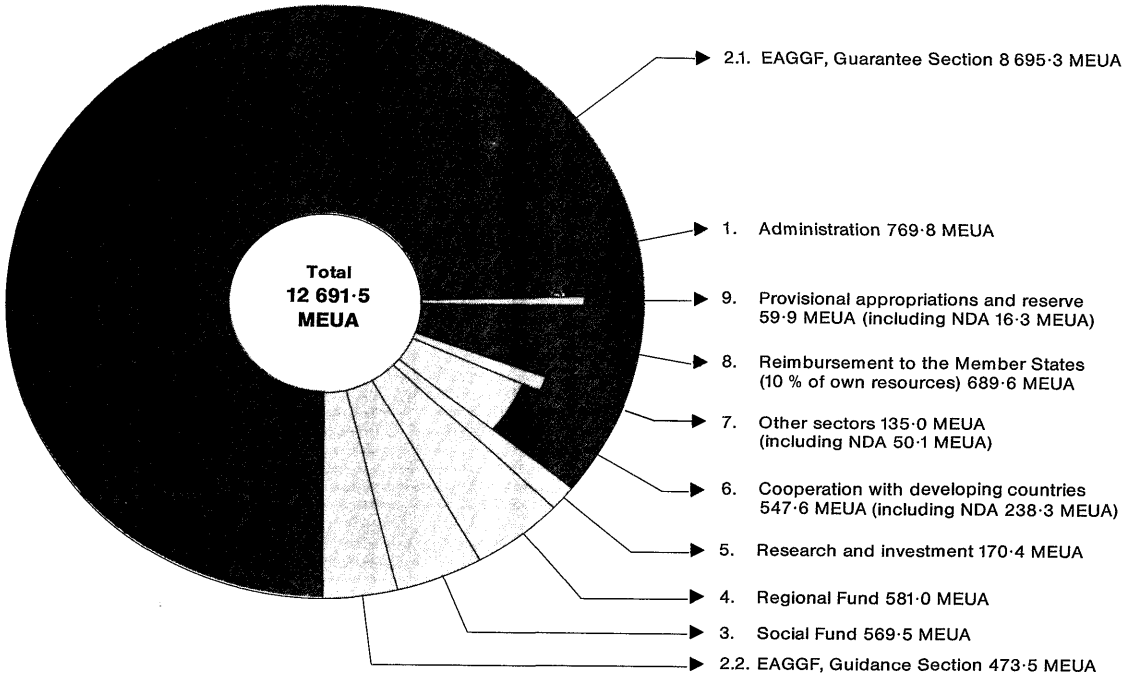
Note: To complete the presentation of the 1978 general budget (Diagrams No 1 and No 2), it is necessary to show the commitment appropriations (differentiated appropriations) and the total appropriations for commitment.

(a) Commitment appropriations:



(b) Appropriations for commitment:

Total commitment appropriations	**2 232·2 MEUA**
+ Total non-differentiated appropriations	**10 459·3 MEUA**
= Total appropriations for commitment	**12 691·5 MEUA**



Key

Commitment appropriations (differentiated appropriations)

Non-differentiated appropriations

Table I

5. Estimated and actual revenue in 1978

A. Summary of total revenue

	Estimated revenue (1)		Actual revenue	
	MEUA	%	MEUA	%
Own resources	**6 896·0**	**55·8**	**6 674·2**	**54·8**
— Customs duties	4 833·0	39·1	4 390·9	36·0
— Agricultural levies	1 686·1	13·6	1 872·7	15·4
— Sugar levies	376·9	3·1	410·6	3·4
Financial contributions	**5 330·8**	**43·1**	**5 329·7**	**43·7**
Other revenue	**135·9**	**1·1**	**177·8**	**1·5**
— ECSC contribution (Article 20 of the merger Treaty)	5·0		5·0	
— Contributions of the Member States to supplementary Euratom programmes	10·6		10·6	
— Deductions from staff remunerations	96·6		95·6	
— Sundry revenue	23·7		66·6	
Total	**12 362·7**	**100**	**12 181·7**	**100**

B_1. Estimated shares (1) of the Member States in the form of own resources and financial contributions

	Germany	France	Italy	Netherlands	Belgium	Luxembourg	United Kingdom	Ireland	Denmark	Total
MEUA	3 610·8	2 203·8	1 584·8	1 270·6	853·2	13·6	2 230·4	95·8	363·8	**12 226·8**
%	29·5	18·0	13·0	10·4	7·0	0·1	18·2	0·8	3·0	100

B_2. Actual shares of the Member States in the form of own resources and financial contributions

(million EUA)

Resource \ Member State	Germany	France	Italy	Netherlands	Belgium	Luxembourg	United Kingdom	Ireland	Denmark	Total
Customs duties	1 376·0	649·5	400·8	444·3	295·7	3·5	1 066·5	46·7	107·9	**4 390·9**
Agricultural levies	289·3	142·2	507·7	395·3	184·5	0·2	338·7	5·1	9·8	**1 872·7**
Sugar levies	146·0	117·5	46·3	33·2	22·2	—	22·3	3·6	19·4	**410·6**
Financial contributions	1 716·1	1 275·4	700·3	320·4	239·8	9·5	897·7	32·2	138·2	**5 329·7**
Total	**3 527·4** (29·4 %)	**2 184·7** (18·2 %)	**1 655·1** (13·8 %)	**1 193·2** (9·9 %)	**742·1** (6·2 %)	**13·3** (0·1 %)	**2 325·2** (19·4 %)	**87·7** (0·7 %)	**275·2** (2·3 %)	**12 003·9** (100 %)
Financial compensations (2)	+210·2	+130·3	+79·4	+44·9	+34·1	+0·9	—481·4	—18·4	—	—
Actual shares after financial compensations	**3 737·6** (31·1 %)	**2 315·0** (19·3 %)	**1 734·5** (14·4 %)	**1 238·1** (10·3 %)	**776·2** (6·5 %)	**14·2** (0·1 %)	**1 843·8** (15·4 %)	**69·3** (0·6 %)	**275·2** (2·3 %)	**12 003·9** (100 %)

(1) After supplementary and amending budgets.
(2) Extra-budgetary financial compensations between Member States (Article 131 of the Act of Acession).

Table II

6. Utilization of appropriations available in 1978 – by sector

(million EUA)

Sector \ Utilization	Type of appropriation	A. Appropriations for payment of the 1978 budget: non-differentiated appropriations and payment appropriations								B. Appropriations for payment carried over from 1977 (3)				C. Commitment appropriations (6)				
	Differentiated appropriations (DA), non-differentiated appropriations (NDA)	1978 budget (after supplementary and amending budgets)	Final appropriations 1978 (after adjustments by transfers)	Commitments against NDA	Payments	Carry-overs to 1979: Total	Carry-overs to 1979: Automatic carry-overs	Carry-overs to 1979: Non-automatic carry-overs	Cancellations	Appropriations carried over from 1977 (after transfer)	Payments	Carry-overs to 1979	Cancellations	1978 budget (after supplementary and amending budgets)	Appropriations available in 1978 (7)	Commitments entered into	Appropriations remaining at the close of 1978	Cancellations
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1. Administration																		
— Commission	NDA	545·0	547·5	497·3	467·5	29·8	29·8	—	50·2	28·4	24·4	—	4·0	—	—	—	—	—
— Parliament	NDA	100·4	100·4	93·0	78·5	14·5	14·5	—	7·4	7·7	5·6	—	2·0	—	—	—	—	—
— Council	NDA	97·1	97·1	82·4	73·9	8·5	8·5	—	14·7	5·9	5·1	—	0·8	—	—	—	—	—
(including Economic and Social Committee)	(NDA)	(15·8)	(15·8)	(14·2)	(13·9)	(0·3)	(0·3)	—	(1·6)	(0·2)	(0·2)	—	(0·0)	—	—	—	—	—
— Court of Justice	NDA	17·3	17·3	14·8	14·1	0·7	0·7	—	2·5	0·6	0·6	—	0·0	—	—	—	—	—
— Court of Auditors	NDA	10·0	10·0	7·1	6·9	0·3	0·2	0·1	2·8	0·2	0·2	—	0·0	—	—	—	—	—
Total	NDA	**769·8**	**772·3**	**694·6**	**640·9**	**53·8**	**53·7**	**0·1**	**77·6**	**42·7**	**35·9**	**—**	**6·8**	**—**	**—**	**—**	**—**	**—**
(including administrative staff)	(NDA)	(533·3)	(533·7)	(473·9)	(469·9)	(4·1)	(4·1)	—	(59·7)	(5·2)	(4·0)	—	(1·1)	—	—	—	—	—
2.1. EAGGF, Guarantee Section																		
2.1.1. Cereals and rice	NDA	1 464·9	1 016·3	1 016·3	1 016·3	—	—	—	—	180·4	180·3	—	0·0	—	—	—	—	—
2.1.2. Milk products	NDA	2 895·9	3 374·3	3 343·9	3 343·9	30·4	—	30·4	—	37·9	37·7	—	0·2	—	—	—	—	—
2.1.3. Oils and fats	NDA	413·3	333·9	333·9	333·9	—	—	—	—	212·0	209·2	—	2·8	—	—	—	—	—
2.1.4. Sugar	NDA	812·5	770·2	770·2	770·2	—	—	—	—	—	—	—	—	—	—	—	—	—
2.1.5. Beef and veal, pigmeat	NDA	545·3	605·0	605·0	605·0	—	—	—	—	56·8	56·7	—	0·1	—	—	—	—	—
2.1.6. Fruit and vegetables	NDA	139·2	100·2	100·2	100·2	—	—	—	—	127·7	127·2	—	0·4	—	—	—	—	—
2.1.7. Wine	NDA	224·3	62·5	62·5	62·5	—	—	—	—	26·6	26·5	—	0·1	—	—	—	—	—
2.1.8. Tobacco	NDA	237·4	209·9	209·9	209·9	—	—	—	—	104·6	103·9	—	0·7	—	—	—	—	—
2.1.9. Sundry	NDA	227·0	313·6	313·6	313·6	—	—	—	—	2·2	2·0	—	0·1	—	—	—	—	—
2.1.10. Agri-monetary measures	NDA	1 735·5	1 893·4	1 893·4	1 893·4	—	—	—	—	—114·3	—113·9	—	—0·5	—	—	—	—	—
Total	NDA	**8 695·3**	**8 679·3**	**8 648·8**	**8 648·8**	**30·4**	**—**	**30·4**	**—**	**633·8**	**629·8**	**—**	**4·0**	**—**	**—**	**—**	**—**	**—**

2.2. EAGGF, Guidance Section	DA	423·5	444·5	—	141·8	302·7	302·7	—	—	801·2	181·8	571·9	43·1 4·4(4)	473·5	521·1 (8)	267·3	250·3	3·6
3. Social Fund	DA	538·8	538·8	—	239·3	299·5	299·5	—	—	45·5	45·5	—	—	569·5	571·2	569·0	2·1	—
4. Regional Fund	DA	525·0	525·0	—	171·8	353·2	353·2	—	—	83·1	83·1	—	—	581·0	599·8	556·4	43·5	—
5. Research and investment (including research staff)	DA	194·0	(1) 224·8	—	123·4	100·7	100·7	—	0·6	74·0	49·7	—	24·3	170·4	(9) 325·1	175·9	144·8	4·5
	(DA)	(86·3)	(79·8)	—	(71·6)	(7·6)	(7·6)	—	(0·6)	(0·2)	(0·2)	—	(0·0)	(85·7)	(81·4)	(71·7)	(8·5)	(1·2)
6. Cooperation with developing countries		142·3 238·3	142·3 239·4	— 231·0	8·0 130·5	134·3 106·5	134·3 100·5	— 6·0	— 2·4	184·5	126·7	—	57·8	309·3 —	309·3 —	45·2 —	264·1 —	— —
7. Other sectors:																		
— Energy	DA	41·3	46·3	—	0·1	46·2	46·2	—	—	29·3	18·5	—	10·8	65·0	133·6	42·5	66·2	25·0
— Specific tasks and miscellaneous	DA	10·5	11·5	—	3·8	7·7	7·7	—	—	24·1	11·4	—	12·7	19·9	45·4	6·3	30·1	9·0
	NDA	45·1	49·9	28·5	14·2	31·7	14·3	17·4	4·0					—	—	—	—	—
— Disaster aid within the Community	NDA	5·0	5·0	3·7	3·7	—	—	—	1·3	32·6	2·2	29·2	(4) 1·1	—	—	—	—	—
Total		**101·9**	**112·7**	—	**21·8**	**85·6**	**68·2**	**17·4**	**5·3**	**85·9**	**32·1**	**29·2**	**24·6**	**84·9**	**179·0**	**48·8**	**96·2**	**34·0**
8. Reimbursement to the Member States (10 % of own resources)	NDA	689·6	689·6	668·3	607·5	60·8	60·8	—	21·3	56·2	54·6	—	1·6	—	—	—	—	—
9. Provisional appropriations and reserve	DA	28·0	1·5	—	—	—	—	—	1·5	—	—	—	—	43·6	0·0	—	—	0·0
	NDA	16·3	7·2	—	—	—	—	—	7·2					—	—	—	—	—
Total	NDA	**10 459·3**	**10 442·8**	**10 275·1**	**10 045·7**	**283·3**	**229·4**	**53·9**	**113·8**	**2 007·0** (3)	**1 239·2**	**601·2**	**166·6** (5)	—	—	—	—	—
	DA	**1 903·4**	**1 934·7**	—	**688·1**	**1 244·4**	**1 244·4**	—	**2·2**					**2 232·2**	**2 505·6** (9)	**1 662·5**	**801·0**	**42·1**
Total appropriations for payment		**12 362·7**	**12 377·5** (1)	**10 275·1**	**10 733·8** (2)	**1 527·7**	**1 473·8**	**53·9**	**116·0**	**2 007·0** (3)	**1 239·2**	**601·2**	**166·6** (5)	—	—	—	—	—

(1) Including the appropriations corresponding to the revenue received in respect of services performed on behalf of outside bodies (14·8 MEUA).
(2) Payments between institutions have not been deducted from the total payments.
(3) Total automatic and non-automatic carry-overs. No distinction has been made between payment appropriations and non-differentiated appropriations.
(4) Adjustments to balances of commitments due to changes in EUA rates.
(5) Including adjustments to balances of commitments due to changes in EUA rates.
(6) The utilization of appropriations for commitments is obtained by adding columns 4 and 16.
(7) After adjustments by transfers, released appropriations and appropriations remaining at the close of 1977.
(8) Excluding a sum of 12·0 MEUA representing the re-utilization of amounts released in accordance with Council Regulation (EEC) No 3171/75; this sum is included in section B 'appropriations carried over from 1977'.
(9) Including the appropriations corresponding to the revenue received in respect of services performed on behalf of outside bodies.

Diagram No 4

7. Summary of the utilization of appropriations available in 1978
(for detailed figures see Table II)

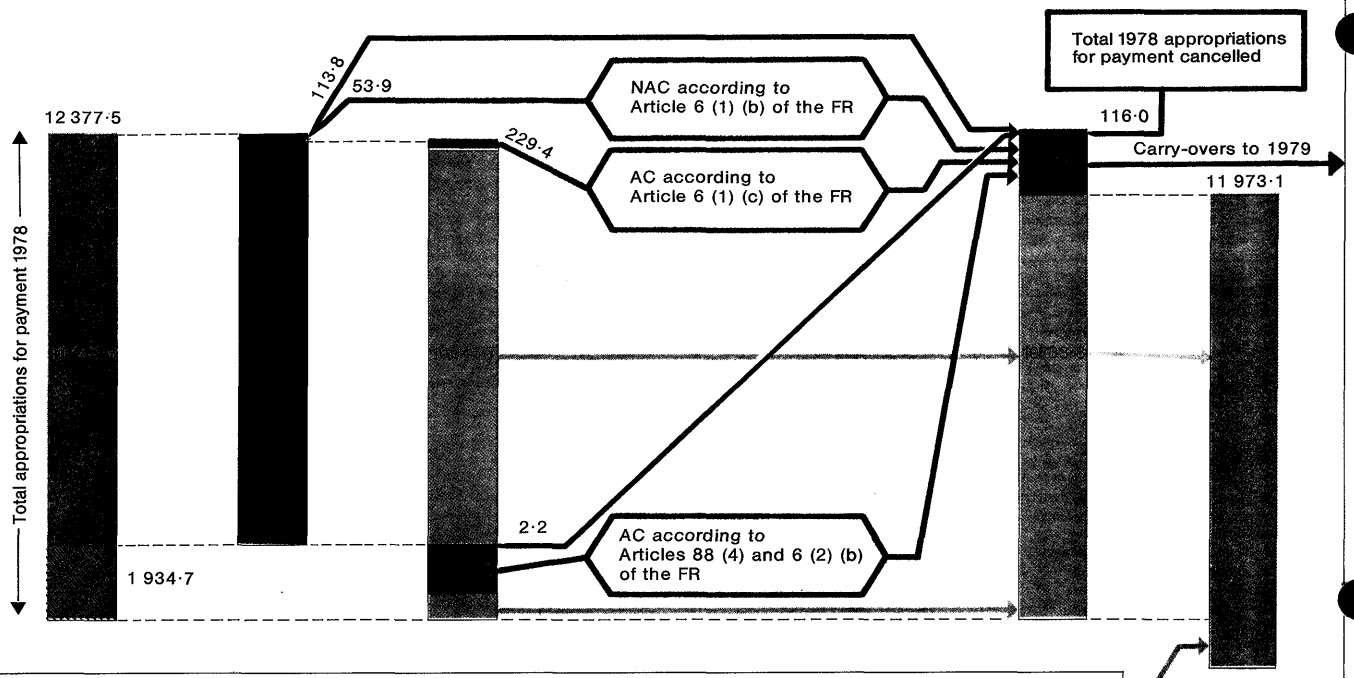
Key

- All amounts are expressed in MEUA
- AC = Automatic carry-overs
- NAC = Non-automatic carry-overs
- FR = Financial Regulation of 21 December 1977

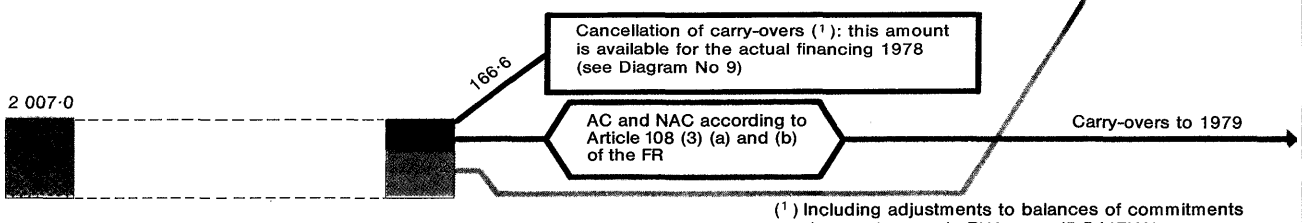
Non-differentiated appropriations 1978
Payment appropriations 1978
Carry-overs from 1977
Commitment appropriations available in 1978

Commitments
Payments
Carry-overs to 1979
Commitment appropriations remaining at the close of 1978
Cancellations

A. Global utilization of appropriations for payment of 1978 budget (final appropriations)



B. Global utilization of appropriations for payment carried over from 1977



(1) Including adjustments to balances of commitments due to changes in EUA rates (5·5 MEUA).

C. Global utilization of commitment appropriations available in 1978

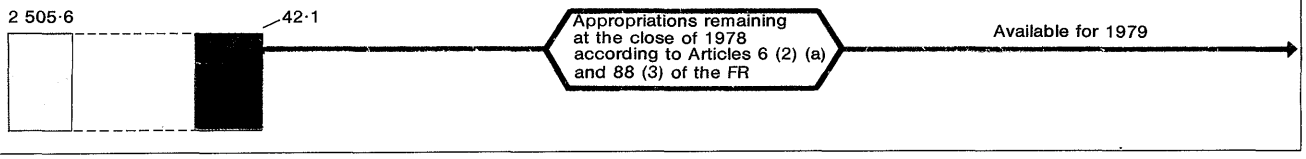


Diagram No 5

8. Utilization of appropriations available in 1978 – by sector
(for detailed figures see Table II)

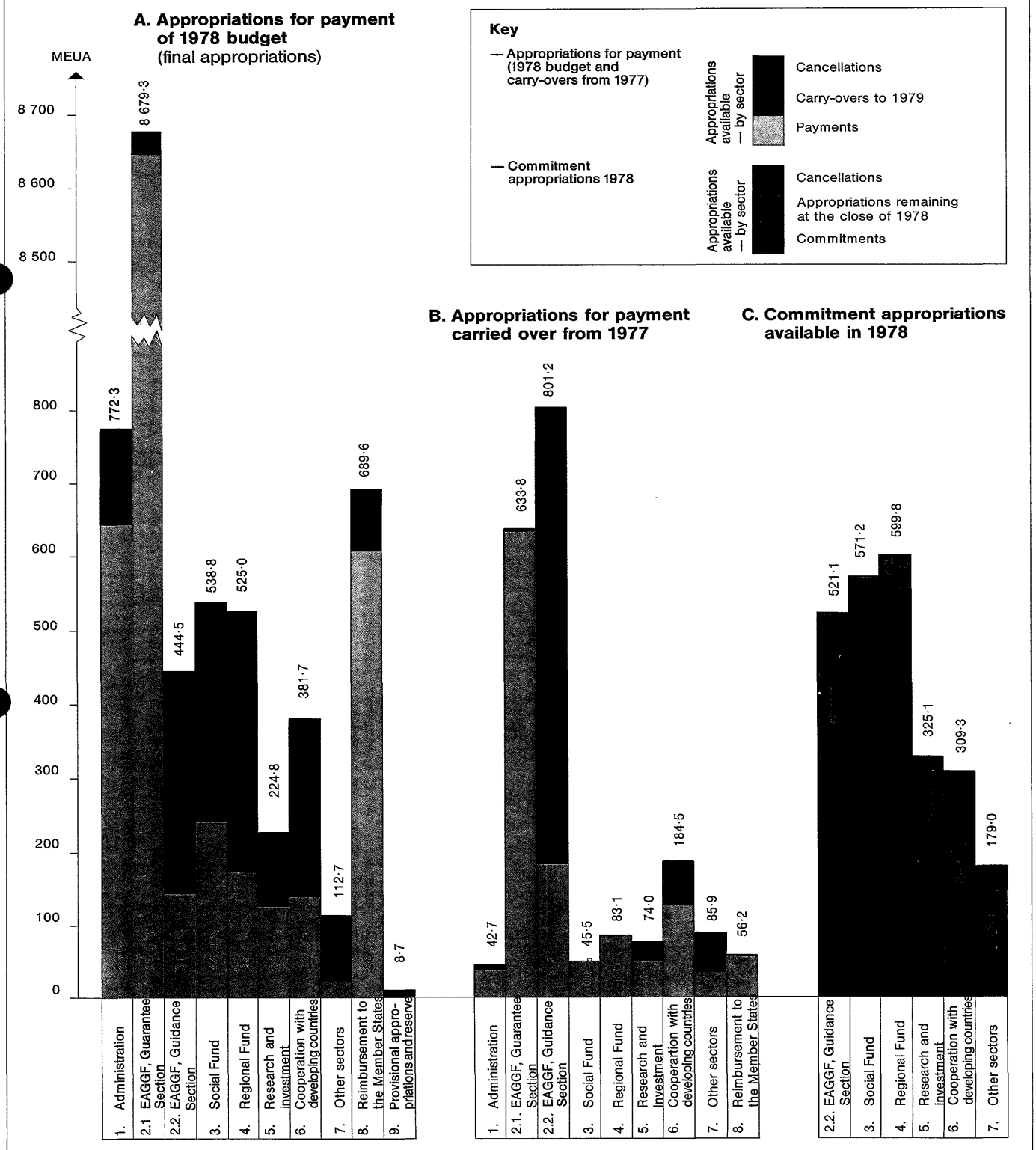
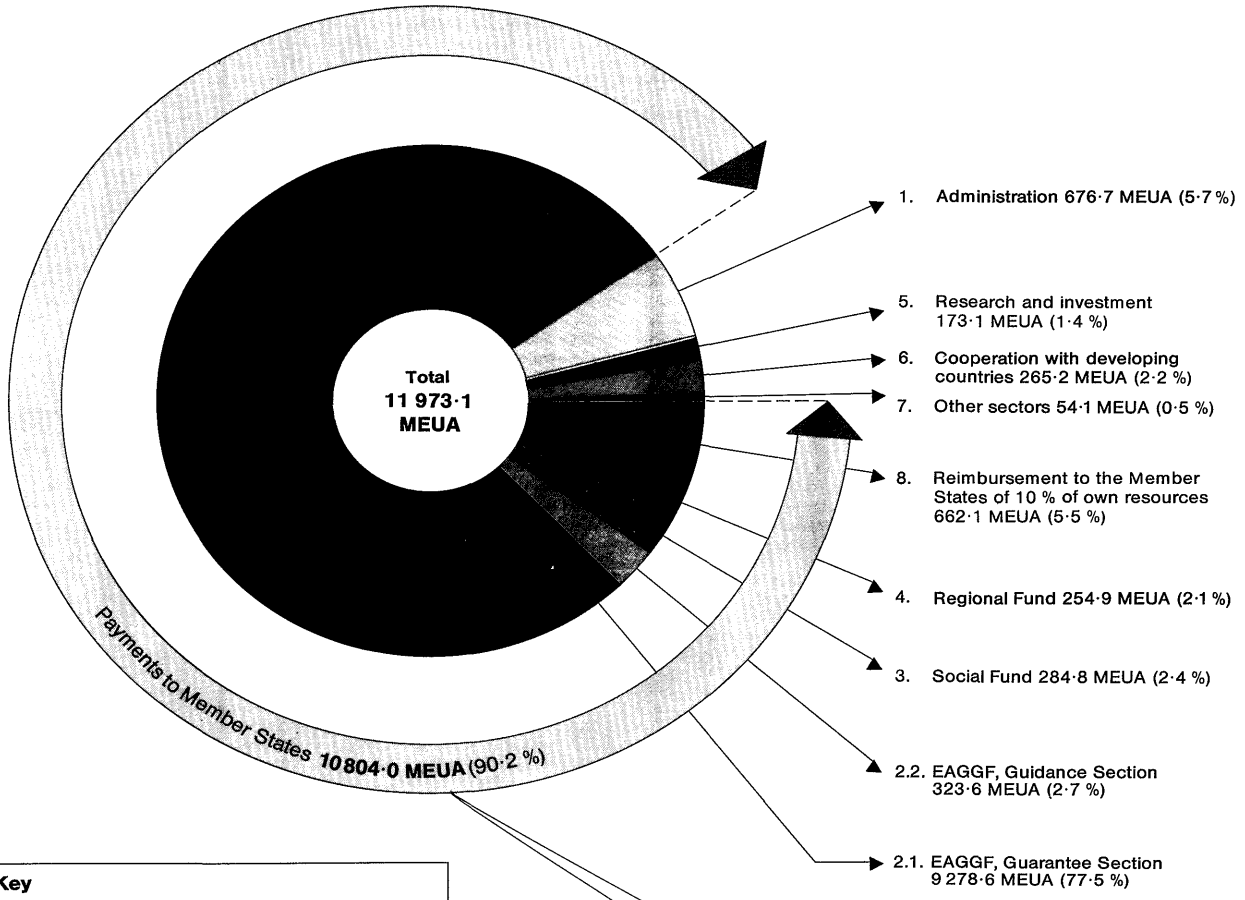


Diagram No 6

9. Payments made in 1978 – by sector
(for detailed figures see Table II, sections A and B)

Payments against 1978 appropriations	**10 733·8 MEUA**
+ Payments against appropriations carried over from 1977	**1 239·2 MEUA**
= Total payments made in 1978	**11 973·1 MEUA**



Key

- 1. Administration
- 2.1. EAGGF, Guarantee Section
- 2.2. EAGGF, Guidance Section
- 3. Social Fund
- 4. Regional Fund
- 5. Research and investment
- 6. Cooperation with developing countries
- 7. Other sectors
- 8. Reimbursement to Member States (10 % of own resources)

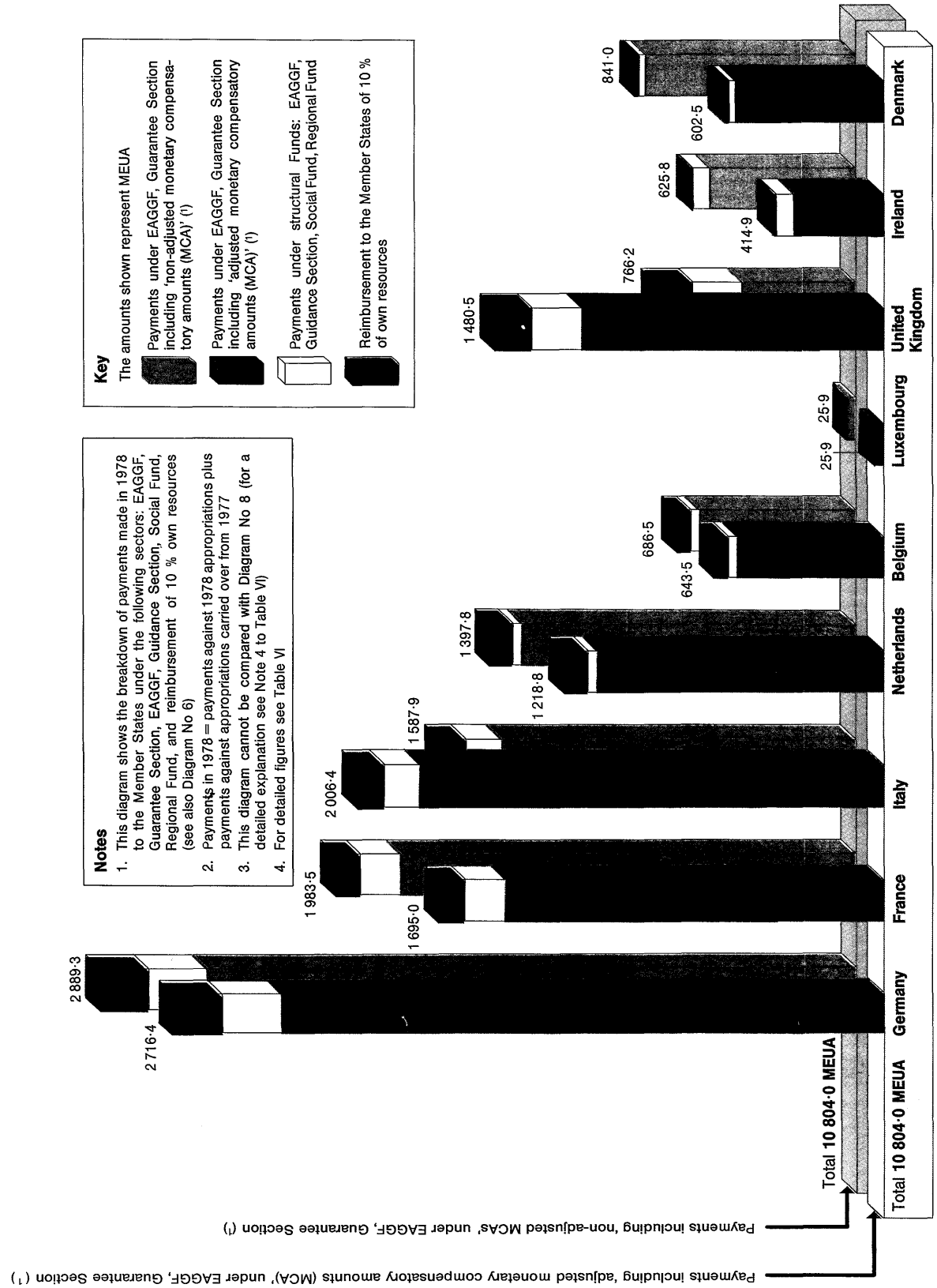
— This amount of 10 804·0 MEUA, paid entirely to the Member States, represents the total payments made under the following sectors:

2.1. EAGGF, Guarantee Section
2.2. EAGGF, Guidance Section
3. Social Fund
4. Regional Fund
8. Reimbursement to Member States of 10 % of own resources

— For the breakdown of this amount by Member State and by sector see Diagram No 7

Diagram No 7

10. Payments to the Member States in 1978



(1) For a detailed explanation of the difference between the two concepts 'non-adjusted MCA' and 'adjusted MCA' see Note 3 to Table VI.

Diagram No 8

11. Actual shares of the Member States in the financing of the 1978 budget

(for detailed figures see Table I (B_2)

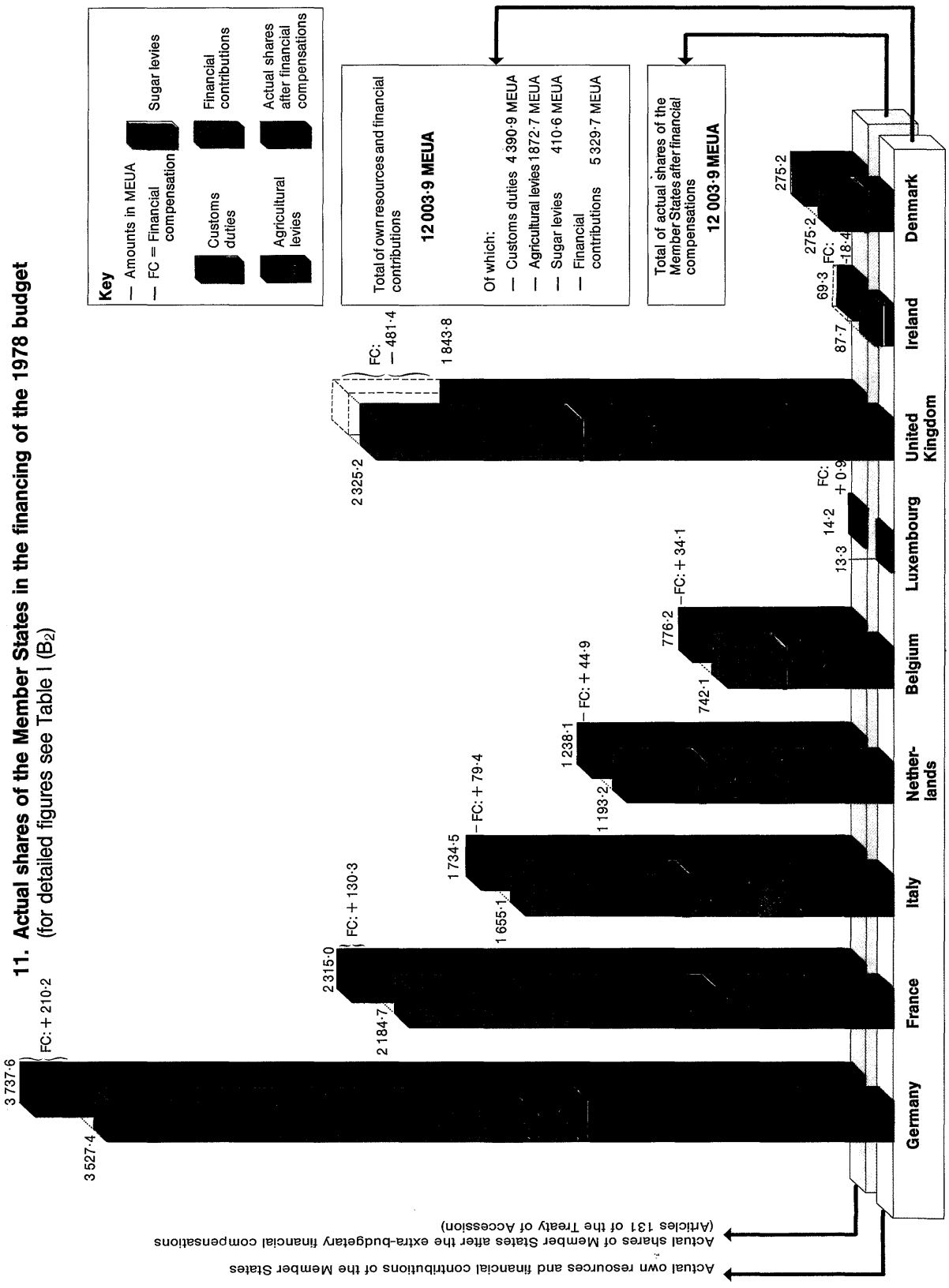
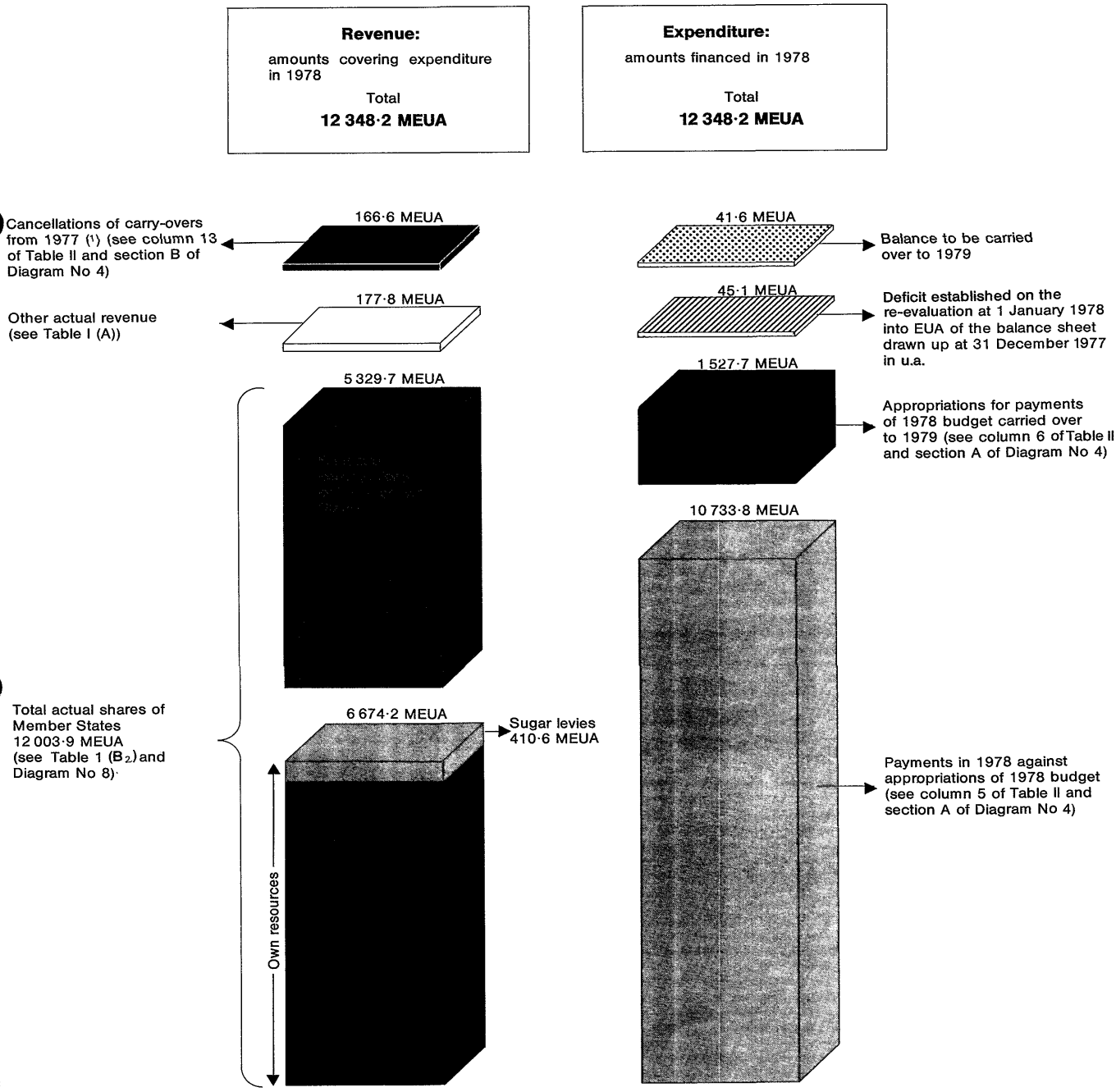


Diagram No 9

12. Actual financing of the financial year 1978



(1) Including adjustments to balances of commitments due to changes in EUA rates.
This sum of 166·6 MEUA has already been financed in previous years. Cancellation of the sum makes it available for the actual financing of the financial year 1978.

Table III

13. Utilization of the appropriations for payment of the Agricultural, Social and Regional Funds for the period 1973–78

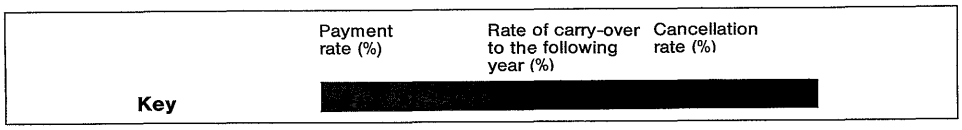
			1973 m.u.a.	1974 m.u.a.	1975 m.u.a.	1976 m.u.a.	1977 m.u.a.	1978 MEUA
General budget – total	I. Appropriations for the financial year	A. Budget (1)	5 134·5	5 225·0	6 268·3	8 470·6	9 584·3	12 362·7
		B. Final appropriations (2)	5 134·5	5 225·0	6 268·3	8 470·6	9 584·3	12 377·5
		C. Payments	3 533·9	3 440·4	5 004·7	6 257·2	7 227·3	10 733·8
		D. Carry-overs to the following financial year	1 402·4	1 687·6	1 238·2	1 986·7	1 670·5	1 527·7
		E. Cancellations	198·1	97·0	25·4	226·7	686·5	115·9
	II. Carry-overs from the previous financial year	F. Appropriations carried over (3)	1 330·1	1 980·3	2 322·9	2 123·8	2 787·4	2 007·0
		G. Payments	470·7	1 076·0	1 406·6	1 030·4	1 477·6	1 239·2
		H. Carry-overs to the following financial year	577·9	635·3	885·6	800·7	894·4	601·2
		K. Cancellations	281·6	269·0	30·7	292·7	415·3	166·6
	III. Total annual payments (C+G)		4 004·6	4 516·4	6 411·2	7 287·6	8 704·9	11 973·1
EAGGF, Guarantee Section	I. Appropriations for the financial year	A. Budget (1)	3 806·5	3 513·1	4 240·5	5 877·7	7 101·6	8 695·3
		B. Final appropriations (2)	3 833·2	3 443·6	4 336·3	5 835·3	7 103·1	8 679·3
		C. Payments	2 978·3	2 641·8	4 003·5	5 040·8	5 571·0	8 648·8
		D. Carry-overs to the following financial year	854·8	797·0	332·9	677·7	1 022·8	30·4
		E. Cancellations	0·0	4·7	—	116·7	509·4	—
	II. Carry-overs from the previous financial year	F. Appropriations carried over (3)	410·3	854·8	827·3(5)	332·9	677·7	633·8
		G. Payments	195·9	636·0	818·0	324·2	595·9	629·8
		H. Carry-overs to the following financial year	—	—	—	—	—	—
		K. Cancellations	214·4	218·8	9·4	8·6	81·9	4·0
	III. Total annual payments (C+G)		3 174·2	3 277·9	4 821·5	5 365·0	6 166·8	9 278·6
EAGGF, Guidance Section	I. Appropriations for the financial year	A. Budget (1)	350·0	325·0	325·0	325·0	157·8	423·5
		B. Final appropriations (2)	350·0	325·0	262·5	325·0	157·8	444·5
		C. Payments	4·8	18·0	38·4	67·4	79·9	141·8
		D. Carry-overs to the following financial year	178·0	245·6	223·8	257·6	77·9	302·7
		E. Cancellations	167·2	61·5	0·3	0·0	—	—
	II. Carry-overs from the previous financial year	F. Appropriations carried over (3)	716·0	755·9	880·9(4)	954·6	1 058·3	801·2
		G. Payments	118·9	110·4	145·9	150·8	216·8	181·8
		H. Carry-overs to the following financial year	577·9	635·3(4)	730·8	800·7	838·7	571·9
		K. Cancellations	19·1	10·2	4·2	3·1	2·8	47·5
	III. Total annual payments (C+G)		123·7	128·4	184·3	218·2	296·7	323·6
Social Fund	I. Appropriations for the financial year	A. Budget (1)	283·0	327·8	366·1	441·0	172·4	538·8
		B. Final appropriations (2)	283·0	327·8	366·1	443·0	172·4	538·8
		C. Payments	21·0	10·1	8·0	10·2	115·4	239·3
		D. Carry-overs to the following financial year	262·0	315·2	354·0	429·2	57·1	299·5
		E. Cancellations	0·0	2·5	4·2	3·6	—	—
	II. Carry-overs from the previous financial year	F. Appropriations carried over (3)	42·7	262·0	284·9(6)	508·8	429·2	45·5
		G. Payments	29·0	227·4	128·3	246·1	201·5	45·5
		H. Carry-overs to the following financial year	—	—	154·8	—	—	—
		K. Cancellations	13·7	34·6	1·7	262·7	227·7	—
	III. Total annual payments (C+G)		49·9	237·5	136·3	256·3	316·9	284·8
Regional Fund	I. Appropriations for the financial year	A. Budget (1)	—	—	150·0	300·0	400·0	525·0
		B. Final appropriations (2)	—	—	150·0	300·0	400·0	525·0
		C. Payments	—	—	90·7	218·0	290·5	171·8
		D. Carry-overs to the following financial year	—	—	59·3	82·0	109·5	353·2
		E. Cancellations	—	—	—	—	—	—
	II. Carry-overs from the previous financial year	F. Appropriations carried over (3)	—	—	—	59·3	82·0	83·1
		G. Payments	—	—	—	59·3	82·0	83·1
		H. Carry-overs to the following financial year	—	—	—	—	—	—
		K. Cancellations	—	—	—	—	—	—
	III. Total annual payments (C+G)		—	—	90·7	277·3	372·5	254·9

Relationship between the lines: B = C + D + E; F = G + H + K; F (year t) = D (year t–1) + H (year t–1).

(1) After amending and supplementary budgets.
(2) After transfers.
(3) Automatic and non-automatic carry-overs.
(4) By comparison with the revenue and expenditure accounts these figures have been rectified to include an amount of 0·9 m.u.a. (Item 8200), which was in fact not cancelled in 1974 but was carried over to 1975.
(5) Including a transfer on carry-over of 30·3 m.u.a. from the Social Fund.
(6) After a transfer of 30·3 m.u.a. to the EAGGF, Guarantee Section.

Diagram No 10

14. Utilization rates of the appropriations for payment of the Agricultural, Social and Regional Funds for the period 1973–78



I. Appropriations for the financial year
(final appropriations = 100 %)

II. Carry-overs from the previous financial year
(appropriations carried over = 100 %)

For basic figures see Table III

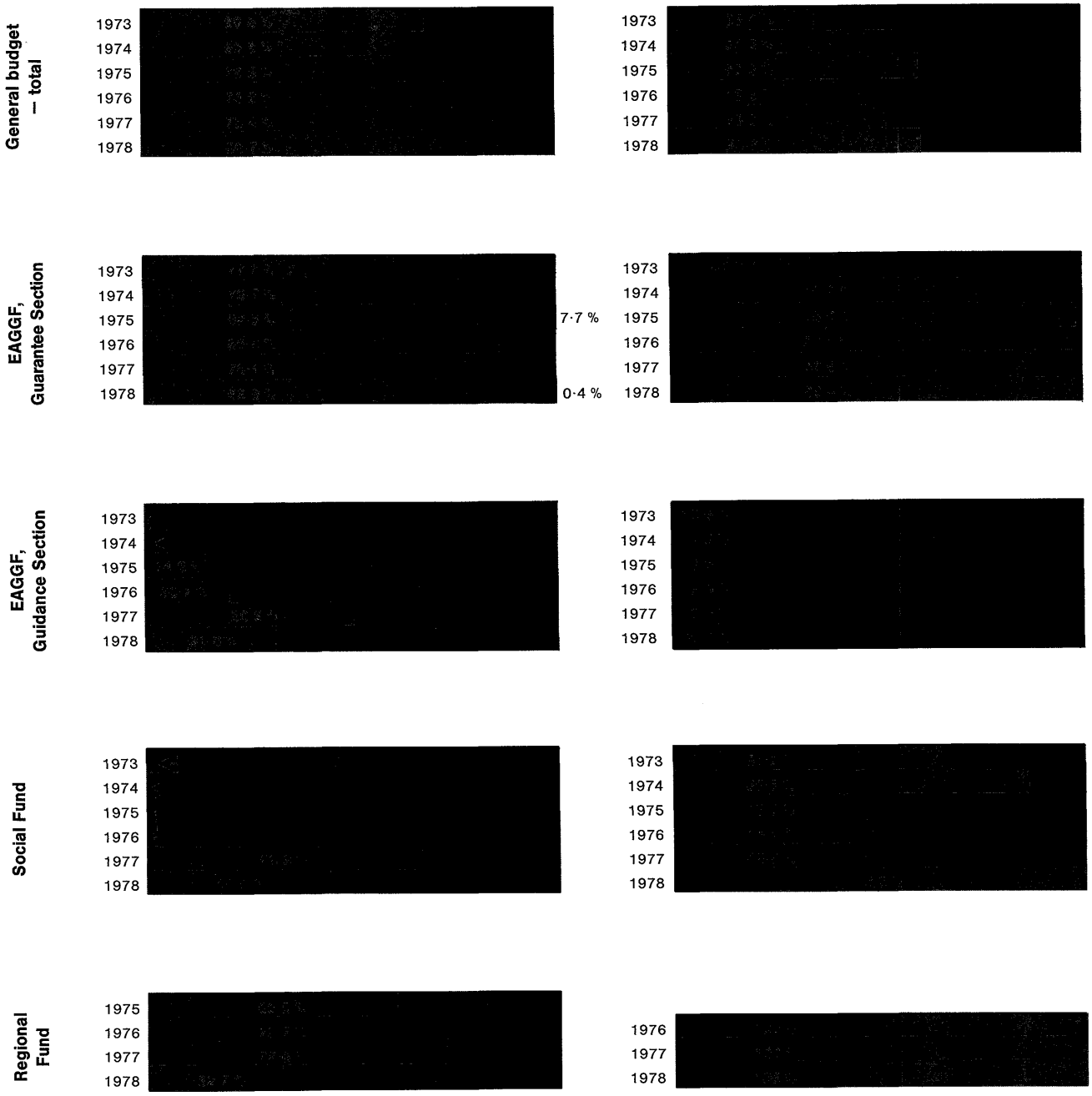


Table IV

15. Budgetary implementation of the EAGGF, Guarantee Section, for the period 1973–78 (principal markets)

		1973		1974		1975		1976		1977		1978	
		m.u.a.	%	m.u.a.	%	m.u.a.	%	m.u.a.	%	m.u.a.	%	MEUA	%
Total EAGGF, Guarantee Section	(a) Final appropriations	3 833·2	100	3 473·9(1)	100	4 336·3	100	5 835·3	100	7 103·1	100	8 679·3	100
	(b) Payments against appropriations for the financial year during the financial year	2 978·3	77·7	2 641·8	76·0	4 003·5	92·3	5 040·8	86·4	5 571·0	78·4	8 648·8	99·6
	(c) Payments against appropriations for the financial year during the following financial year	636·0	16·6	818·0	23·6	324·2	7·5	595·9	10·2	1 015·8	14·3	30·4(2)	0·4
	(d) Cancellations	218·8	5·7	14·0	0·4	8·6	0·2	198·6	3·4	516·4	7·3		
Cereals	(a) Final appropriations	953·0	100	457·7	100	559·4(3)	100	639·9	100	606·5	100	999·6	100
	(b) Payments against appropriations for the financial year during the financial year	804·2	84·4	322·1	70·4	558·2	99·8	603·0	94·2	378·3	62·4	999·6	100
	(c) Payments against appropriations for the financial year during the following financial year	142·6	15·0	135·1	29·5	1·1	0·2	33·2	5·2	180·3	29·7	—	—
	(d) Cancellations	6·1	0·6	0·5	0·1	0·1	0·0	3·7	0·6	47·9	7·9	—	—
Milk products	(a) Final appropriations	1 458·5	100	1 247·5	100	1 100·7(3)	100	2 114·7	100	2 536·7	100	3 374·3	100
	(b) Payments against appropriations for the financial year during the financial year	1 354·6	92·9	1 153·3	92·4	1 024·2	93·1	1 976·2	93·5	2 465·6	97·2	3 343·9	99·1
	(c) Payments against appropriations for the financial year during the following financial year	98·4	6·7	91·8	7·4	76·4	6·9	138·3	6·5	37·7	1·5	30·4(2)	0·9
	(d) Cancellations	5·5	0·4	2·4	0·2	0·1	0·0	0·2	0·0	33·4	1·3		
Oils and fats	(a) Final appropriations	363·0	100	336·9	100	21·7(3)	100	310·6	100	356·6	100	333·9	100
	(b) Payments against appropriations for the financial year during the financial year	49·4	13·6	7·3	2·2	9·7	44·7	299·7	96·5	93·0	26·1	333·9	100
	(c) Payments against appropriations for the financial year during the following financial year	282·2	77·7	323·7	96·1	7·4	34·1	5·8	1·9	209·2	58·7	—	—
	(d) Cancellations	31·4	8·7	5·8	1·7	4·6	21·2	5·1	1·6	54·4	15·2	—	—
Sugar	(a) Final appropriations	129·5	100	108·9	100	310·1(3)	100	228·8	100	545·5	100	770·2	100
	(b) Payments against appropriations for the financial year during the financial year	127·5	98·5	108·8	99·9	301·9	97·4	226·5	99·0	536·7	98·4	770·2	100
	(c) Payment against appropriations for the financial year during the following financial year	—0·5	—0·4	—	—	8·2	2·6	—	—	—	—	—	—
	(d) Cancellations	2·5	1·9	0·1	0·1	—	—	2·3	1·0	8·8	1·6	—	—
Beef and veal	(a) Final appropriations	16·1	100	373·8	100	956·0(3)	100	647·4	100	495·4	100	566·7	100
	(b) Payments against appropriations for the financial year during the financial year	16·1	100	304·6	81·5	924·5	96·7	636·8	98·4	354·9	71·6	566·7	100
	(c) Payment against appropriations for the financial year during the following financial year	0·0	—	69·2	18·5	31·5	3·3	6·3	1·0	55·8	11·3	—	—
	(d) Cancellations	0·0	—	—	—	—	—	4·3	0·6	84·7	17·1	—	—

Notes:

1. Table IV has been set out in such a way as to show the complete implementation of the budgetary appropriations voted in a given financial year, irrespective of the actual payments.
2. This presentation is possible since the budgetary implementation of the EAGGF, Guarantee Section is strictly biannual.
3. Concordance between Table III (EAGGF, Guarantee Section) and Table IV (Total of EAGGF, Guarantee Section).
   For a given year 't' in Table IV there is: (a) = (B year t) in Table III
   (b) = (C year t) in Table III
   (c) = (G year t + 1) in Table III
   (d) = (E year t) plus (K year t + 1) in Table III

(1) Including transfers on carry-over out of the Social Fund (30·3 m.u.a).
(2) The utilization rate of this amount will be known at the close of the financial year 1979.
(3) After transfers on carry-over within the EAGGF, Guarantee Section.

Table V

16. Annual payments (1) by sector (1973–78)

	1973		1974		1975		1976		1977		1978	
	m.u.a,	%	m.u.a.	%	m.u.a.	%	m.u.a.	%	m.u.a.	%	MEUA	%
1. Administration												
— Commission	183·8	4·6	262·2	5·8	282·7	4·4	313·9	4·3	366·5	4·2	492·0	4·1
— Parliament	22·6	0·6	30·7	0·7	38·9	0·6	44·6	0·6	58·5	0·7	84·1	0·7
— Council	27·6	0·7	36·5	0·8	45·2	0·7	52·0	0·7	61·0	0·7	79·0	0·7
— Court of Justice	5·4	0·1	7·2	0·2	8·1	0·1	9·2	0·1	10·7	0·1	14·7	0·1
— Court of Auditors	—	—	—	—	—	—	—	—	0·3	0·0	7·0	0·1
Total (2)	**239·4**	**6·0**	**336·7**	**7·5**	**375·0**	**5·8**	**419·7**	**5·7**	**497·0**	**5·7**	**676·7**	**5·7**
2.1. EAGGF, Guarantee Section	3 174·2	79·3	3 277·9	72·6	4 821·5	75·2	5 365·0	73·6	6 166·8	70·9	9 278·6	77·5
2.2. EAGGF, Guidance Section	123·7	3·1	128·4	2·8	184·3	2·9	218·2	3·0	296·7	3·4	323·6	2·7
3. Social Fund	49·9	1·2	237·5	5·3	136·3	2·1	256·3	3·5	316·9	3·6	284·8	2·4
4. Regional Fund	—	—	—	—	90·7	1·4	277·3	3·8	372·5	4·3	254·9	2·1
5. Research and investment	72·3	1·8	77·7	1·7	90·8	1·4	102·4	1·4	129·8	1·5	173·1	1·4
6. Cooperation with developing countries	104·8	2·6	168·7	3·7	324·2	5·1	136·8	1·9	218·4	2·5	265·2	2·2
7. Other sectors	3·7	0·1	5·5	0·1	34·3	0·6	39·5	0·6	41·8	0·5	54·1	0·5
8. Reimbursement to the Member States (10 % of own resources)	236·5	5·9	284·0	6·3	354·2	5·5	472·3	6·5	665·0	7·6	662·1	5·5
Total (2)	**4 004·6**	**100**	**4 516·4**	**100**	**6 411·2**	**100**	**7 287·6**	**100**	**8 704·9**	**100**	**11 973·1**	**100**

(1) Annual payments: payments against appropriations for the financial year plus payments against appropriations carried over from the previous financial year.
(2) Payments between institutions have not been deducted.

Table VI

17. Annual payments to the Member States (1976–78)

Notes:

1. The annual payments represent the total amount of payments against appropriations for the financial year plus payments against appropriations carried over from the previous year
2. This table summarizes, for the period 1976-78, the annual payments to the Member States under the five sectors EAGGF, Guarantee Section, EAGGF, Guidance Section, Social Fund, Regional Fund, reimbursement of 10 % of own resources. The payments against appropriations in these sectors are entirely for the benefit of the Member States.
3. Payments to the Member States under the EAGGF, Guarantee Section are shown in the table under two headings:
   (a) payments including 'non-adjusted monetary compensatory amounts (MCA)';
   (b) payments including 'adjusted MCA'.
   The difference between the two concepts arises from the application of Article 2 (a) of Council Regulation (EEC) No 974/71 of 12 May 1971, under which exporting Member States themselves pay directly the MCA due on import in certain importing Member States (United Kingdom, Italy). The adjustment consists in allocating to the latter the amounts which are chargeable to them.
4. It is not possible to make a direct comparison between the information in this table and in Table VII relating to the shares of the Member States in the financing of the general budget, because of a time lag between the financing of a financial year and the payments made during the same year.
   The Member States' shares for a given financial year 't' also cover certain payments to be made during following financial years against carry-overs from financial year 't' (see also Diagram No 9). On the other hand, payments made during this same financial year 't' are partially financed from previous financial years (payments against appropriations carried over from previous financial years).

			Germany	France	Italy	Nether-lands	Belgium	Luxem-bourg	United Kingdom	Ireland	Denmark	Total
1976 (m.u.a.)	EAGGF, Guarantee Section	Non-adjusted MCA	880·0	1 417·6	819·7	756·8	337·2	8·1	468·2	245·0	432·4	**5 365·0**
		Adjusted MCA	850·2	1 375·3	876·2	696·1	327·4	8·1	689·4	186·4	355·9	**5 365·0**
	EAGGF, Guidance Section		49·9	44·7	37·9	14·9	11·1	0·4	43·5	9·3	6·5	**218·2**
	Social Fund		59·5	29·8	37·6	12·9	9·3	0·0	66·2	11·2	20·0	**246·4** (1)
	Regional Fund		13·3	28·9	112·9	5·4	6·1	0·4	88·3	18·0	4·0	**277·3**
	Reimbursement of 10 % of own resources		114·9	69·5	82·3	52·1	32·4	0·3	106·8	3·4	10·5	**472·3**
	Total	Non-adjusted MCA	**1 117·6** (17·0 %)	**1 590·5** (24·2 %)	**1 090·4** (16·6 %)	**842·1** (12·8 %)	**396·1** (6·0 %)	**9·2** (0·1 %)	**773·0** (11·7 %)	**286·9** (4·4 %)	**473·4** (7·2 %)	**6 579·2** (1) (100 %)
		Adjusted MCA	**1 087·8** (16·5 %)	**1 548·2** (23·5 %)	**1 146·9** (17·4 %)	**781·4** (11·9 %)	**386·3** (5·9 %)	**9·2** (0·1 %)	**994·2** (15·1 %)	**228·3** (3·5 %)	**396·9** (6·1 %)	**6 579·2** (1) (100 %)
1977 (m.u.a.)	EAGGF, Guarantee Section	Non-adjusted MCA	1 245·9	1 572·4	470·2	887·3	418·6	8·1	351·4	588·1	624·8	**6 166·8**
		Adjusted MCA	1 112·6	1 310·3	785·4	723·9	377·8	8·0	1 020·7	400·1	428·0	**6 166·8**
	EAGGF, Guidance Section		69·7	59·3	34·3	19·9	16·6	2·2	65·4	14·8	14·5	**296·7**
	Social Fund		38·0	35·6	89·6	8·1	6·6	0·0	102·3	26·4	9·7	**316·2** (2)
	Regional Fund		24·9	45·8	149·5	2·8	2·8	0·1	118·6	22·1	5·8	**372·5**
	Reimbursement of 10 % of own resources		130·1	85·2	130·0	68·5	47·7	0·3	183·1	5·8	14·3	**665·0**
	Total	Non-adjusted MCA	**1 508·6** (19·3 %)	**1 798·3** (23·0 %)	**873·6** (11·2 %)	**986·6** (12·6 %)	**492·3** (6·3 %)	**10·7** (0·1 %)	**820·8** (10·5 %)	**657·2** (8·4 %)	**669·1** (8·6 %)	**7 817·2** (2) (100 %)
		Adjusted MCA	**1 375·3** (17·6 %)	**1 536·2** (19·7 %)	**1 188·8** (15·2 %)	**823·2** (10·5 %)	**451·5** (5·8 %)	**10·6** (0·1 %)	**1 490·1** (19·1 %)	**469·2** (6·0 %)	**472·3** (6·0 %)	**7 817·2** (2) (100 %)
1978 (MEUA)	EAGGF, Guarantee Section	Non-adjusted MCA	2 489·0	1 739·4	1 353·0	1 273·9	601·8	23·9	439·1	552·2	806·3	**9 278·6**
		Adjusted MCA	2 316·1	1 450·9	1 771·5	1 094·9	558·8	23·9	1 153·4	341·3	567·8	**9 278·6**
	EAGGF, Guidance Section		125·1	60·5	31·3	16·3	15·7	1·4	40·5	16·8	16·0	**323·6**
	Social Fund		52·7	52·2	29·0	14·6	12·0	0·1	89·5	30·9	3·7	**284·8**
	Regional Fund		42·2	40·6	78·5	6·5	6·0	0·2	59·0	20·5	1·4	**254·9**
	Reimbursement of 10 % of own resources		180·3	90·8	96·1	86·5	51·0	0·3	138·1	5·4	13·6	**662·1**
	Total	Non-adjusted MCA	**2 889·3** (26·7 %)	**1 983·5** (18·4 %)	**1 587·9** (14·7 %)	**1 397·8** (12·9 %)	**686·5** (6·4 %)	**25·9** (0·2 %)	**766·2** (7·1 %)	**625·8** (5·8 %)	**841·0** (7·8 %)	**10 804·0** (100 %)
		Adjusted MCA	**2 716·4** (25·1 %)	**1 695·0** (15·7 %)	**2 006·4** (18·6 %)	**1 218·8** (11·3 %)	**643·5** (6·0 %)	**25·9** (0·2 %)	**1 480·5** (13·7 %)	**414·9** (3·8 %)	**602·5** (5·6 %)	**10 804·0** (100 %)

(1) Not including payments of 9·9 m.u.a. (Social Fund) for which the breakdown by Member State cannot be ascertained without unwarranted expenditure of time.
(2) Not including payments of 0·7 m.u.a. (Social Fund) for which the breakdown by Member State cannot be ascertained without unwarranted expenditure of time.

Table VII

18. Actual shares of Member States (1) in the financing of the general budget (1973–78)

Member State	Type of resource	1973		1974		1975		1976		1977		1978 (3)	
		m.u.a.	%	m.u.a.	%	m.u.a.	%	m.u.a.	%	m.u.a.	%	MEUA	%
Germany	Own resources	731·2		861·4		992·4		1 187·0		1 090·7		1 811·4	
	Financial contributions	600·3		554·6		662·1		920·8		1 028·2		1 716·1	
	Total	**1 331·5**	29·0	**1 416·0**	28·5	**1 654·5**	28·1	**2 107·8**	27·3	**2 118·9**	25·8	(A) **3 527·4**	29·4
												(B) **3 737·6**	31·1
France	Own resources	448·7		562·0		595·4		742·4		707·3		909·2	
	Financial contributions	686·8		630·2		750·6		909·8		954·1		1 275·4	
	Total	**1 135·5**	24·8	**1 192·3**	24·0	**1 346·0**	22·8	**1 652·2**	21·4	**1 661·4**	20·3	(A) **2 184·6**	18·2
												(B) **2 315·0**	19·3
Italy	Own resources	403·5		508·0		580·6		934·3		1 191·5		954·9	
	Financial contributions	468·7		405·7		449·9		382·4		176·8		700·3	
	Total	**872·2**	19·0	**913·7**	18·4	**1 030·5**	17·5	**1 316·6**	17·1	**1 368·3**	16·7	(A) **1 655·1**	13·8
												(B) **1 734·5**	14·4
Netherlands	Own resources	280·6		297·9		403·8		586·4		564·5		872·8	
	Financial contributions	152·2		154·3		124·5		88·6		136·9		320·4	
	Total	**432·8**	9·4	**452·2**	9·1	**528·3**	9·0	**675·0**	8·8	**701·5**	8·6	(A) **1 193·2**	9·9
												(B) **1 238·1**	10·3
Belgium	Own resources	175·7		215·4		268·2		371·4		400·6		502·3	
	Financial contributions	161·6		137·5		129·3		126·6		116·9		239·8	
	Total	**337·3**	7·4	**352·9**	7·1	**397·5**	6·7	**498·0**	6·5	**517·5**	6·3	(A) **742·1**	6·2
												(B) **776·2**	6·5
Luxembourg	Own resources	3·0		4·5		3·5		3·4		2·6		3·7	
	Financial contributions	5·2		4·1		6·2		8·5		9·3		9·5	
	Total	**8·2**	0·2	**8·6**	0·2	**9·7**	0·2	**11·9**	0·1	**11·9**	0·1	(A) **13·3**	0·1
												(B) **14·2**	0·1
United Kingdom	Own resources	402·5		548·7		799·6		1 250·3		1 577·8		1 427·5	
	Financial contributions	—		—		—		—		—		897·7	
	Total	**402·5**	8·8	**548·7**	11·0	**799·6**	13·6	**1 250·3**	16·2	**1 577·8**	19·2	(A) **2 325·2**	19·4
												(B) **1 843·8**	15·4
Ireland	Own resources	12·7		17·3		25·2		39·5		49·8		55·4	
	Financial contributions	—		—		—		—		—		32·2	
	Total	**12·7**	0·3	**17·3**	0·3	**25·2**	0·4	**39·5**	0·5	**49·8**	0·6	(A) **87·7**	0·7
												(B) **69·3**	0·6
Denmark	Own resources	38·6		52·6		72·4		113·8		120·7		137·0	
	Financial contributions	12·6		17·3		29·4		45·4		72·4		138·2	
	Total	**51·3**	1·1	**69·9**	1·4	**101·8**	1·7	**159·2**	2·1	**193·0**	2·4	(A) **275·2**	2·3
												(B) **275·2**	2·3
Total	Own resources	2 496·6		3 067·7		3 741·1		5 228·2		5 705·7 (2)		6 674·2	
	Financial contributions	2 087·3		1 903·8		2 152·0		2 482·1		2 494·5		5 329·7	
	Total	**4 583·9**	100	**4 971·5**	100	**5 893·1**	100	**7 710·3**	100	**8 200·2**	100	(A) **12 003·9**	100
												(B) **12 003·9**	100

(1) Excluding ECSC contributions and contributions to the Euratom supplementary programmes.

(2) The 1977 own resources only cover 10 months.

(3) In 1978 two totals, (A) and (B), are shown: (A) represents total own resources plus financial contributions, (B) shows the actual shares after the extra-budgetary financial compensations (Article 131 of the Treaty of Accession).

Part II: the European Development Funds (EDF) (position at 31 December 1978)

19. General information on the four Funds

Summary

	1st EDF	2nd EDF (Yaoundé I)	3rd EDF (Yaoundé II)	4th EDF (Lomé)
(a) **Legal basis**	Convention provided for under Article 136 of the Treaty of Rome and annexed thereto	Yaoundé Convention I of 20 July 1963 (OJ No 93, 11. 6. 1964)	Yaoundé Convention II of 29 July 1969 (OJ No L 282, 28. 12. 1970)	— Lomé Convention of 28 February 1975 (OJ No L 25, 30. 1. 1976) — Council Decision 76/568/EEC of 29 June 1966 (OJ No L 176, 1. 7. 1976)
(b) **Financial provisions**	— Council Regulation No 5 (OJ No 33, 31. 12. 1958) — Council Regulation No 6 (OJ No 33, 31. 12. 1958) — Commission Regulation No 7 (OJ No 12, 25. 2. 1959) — Commission Regulation No 123 (OJ No 79, 30. 8. 1962)	— Internal Agreement (OJ No 93, 11. 6. 1964) — Council Financial Regulation 64/356/EEC (OJ No 93, 11. 6. 1964) — Commission Regulation No 62/65 (OJ No 81, 11. 5. 1965)	— Council Financial Regulation 71/68/EEC (OJ No L 31, 8. 2. 1971) — Internal Agreement (OJ No L 31, 8. 2. 1971) — Council Regulation (EEC) No 2798/73 of 14 May 1973 (OJ No L 288, 15. 10. 1973)	— Financial Regulation No 76/647/EEC of 27 July 1976 (OJ No L 229, 20. 8. 1976) — Internal Agreement of 11 July 1975 (OJ No L 25, 30. 1. 1976) amended on 28 March 1977 (OJ No L 287, 13. 10. 1978) — Council Decision 75/250/EEC of 21 April 1975 (OJ No L 104, 24. 4. 1975)
(c) **Initial allocations**	581·3 m.u.a. = 581·3 MEUA (1)	730·0 m.u.a. = 730·0 MEUA (1)	900·0 m.u.a. = 900·0 MEUA (1)	3 150·0 MEUA (1)
(d) **Financing of the initial allocations** (see also Diagram No 11)	Contributions from the six Community Member States (before enlargement).			Contributions from the nine Community Member States (after enlargement).
(e) **Resources available at 31 December 1978 (2)**	570·1 MEUA (1)	735·0 MEUA (1)	911·5 MEUA (1)	3 175·3 MEUA (1)
(f) **Duration scheduled**	Five years: 1959-64	Five years + extension: 1964-70	Five years + extension: 1971-76	Five years: 1976-80
(g) **Type of aids** (see also Diagram No 11)	Grants	Grants and special loans	Grants and special loans	Grants, special loans, risk capital, Stabex
(h) **Recipient countries and territories** (see also Table IX)	Associated African States and Madagascar (AASM) and overseas countries and territories (OCT) and French overseas departments (OD)			African, Caribbean and Pacific States (ACP) and OCT/OD
(i) **Implementation of the EDF**	By the Commission of the European Communities			
(j) **Audit**	By the Audit Board until 1976; as from the financial year 1977 by the Court of Auditors of the European Communities			
(k) **Authority giving discharge**	The Council	The Council	The Council	Parliament on the recommendation of the Council
(l) **Intervention of the European Investment Bank within the framework of the EDF Conventions**	—	Loans: 70 m.u.a.	Loans: 100 m.u.a.	Loans: 400 MEUA

(1) The European unit of account (EUA) was introduced in the Lomé Convention. After the introduction of the EUA in the 4th Fund, it was agreed to adopt the conversion rate 1 u.a. = 1 EUA for the first three Funds.

(2) The differences between the initial allocations and the resources available are due to transfers of unutilized balances between the EDFs (11·2 MEUA from the 1st to the 2nd EDF; 6·2 MEUA from the 2nd to the 3rd EDF), supplementary allocations (5·0 MEUA for the 3rd EDF; 11·5 MEUA for the 4th EDF), Stabex refunds, and miscellaneous revenue.

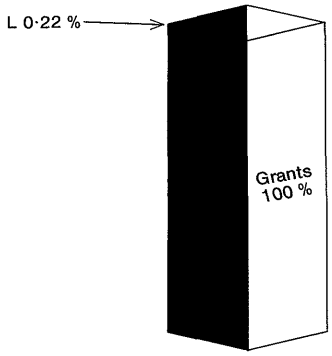
Diagram No 11

20. The four Funds: initial allocations and their financing, type of aids, utilization rates

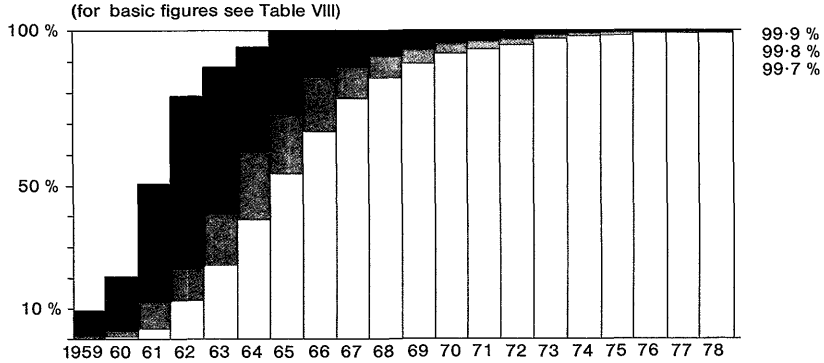
	Financing by the Member States	Type of aids	Evolution of cumulative utilization rates of the resources available (global commitments, final commitments, payments)

1st EDF

Initial allocation 581·3 MEUA

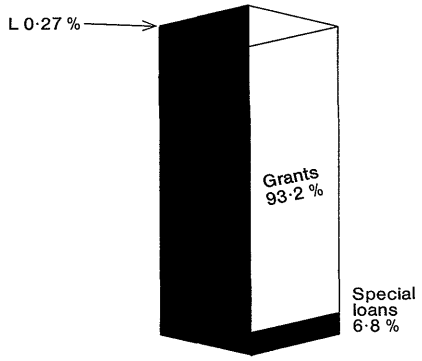


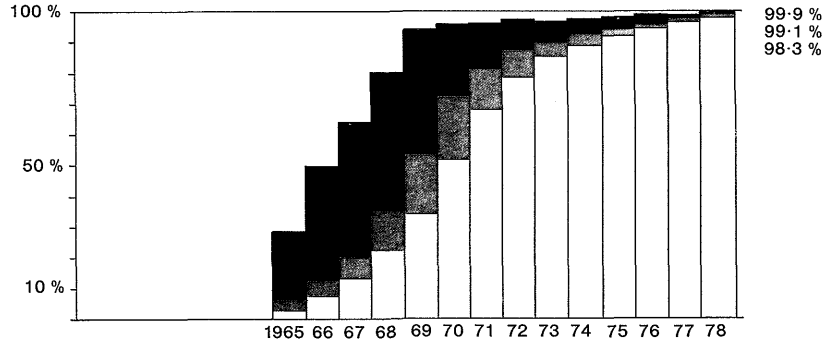
Resources available in each year = 100 %
(for basic figures see Table VIII)



2nd EDF

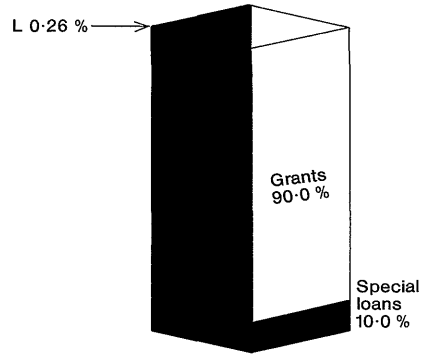
Initial allocation 730·0 MEUA

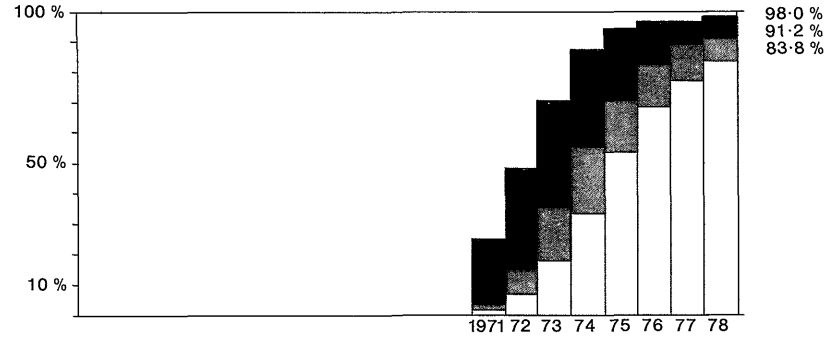




3rd EDF

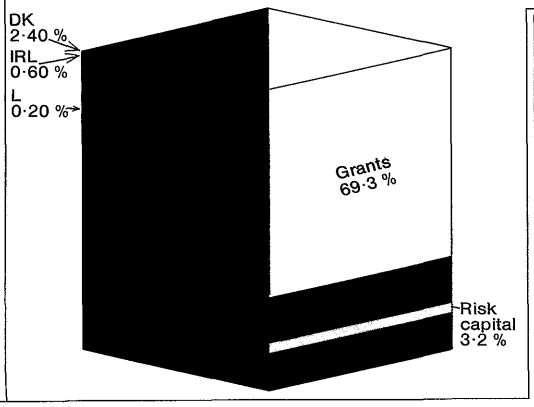
Initial allocation 900·0 MEUA





4th EDF

Initial allocation 3 150·0 MEUA



Key

- Contributions of the Member States
- Grants
- Special loans
- Risk capital
- Stabex

D — Germany
F — France
I — Italy
NL — Netherlands
B — Belgium
L — Luxembourg
UK — United Kingdom
IRL — Ireland
DK — Denmark

- Cumulative rates of global commitments
- Cumulative rates of final commitments
- Cumulative rates of payments

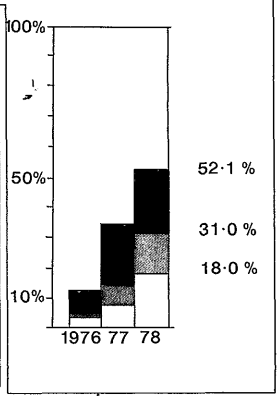


Table VIII

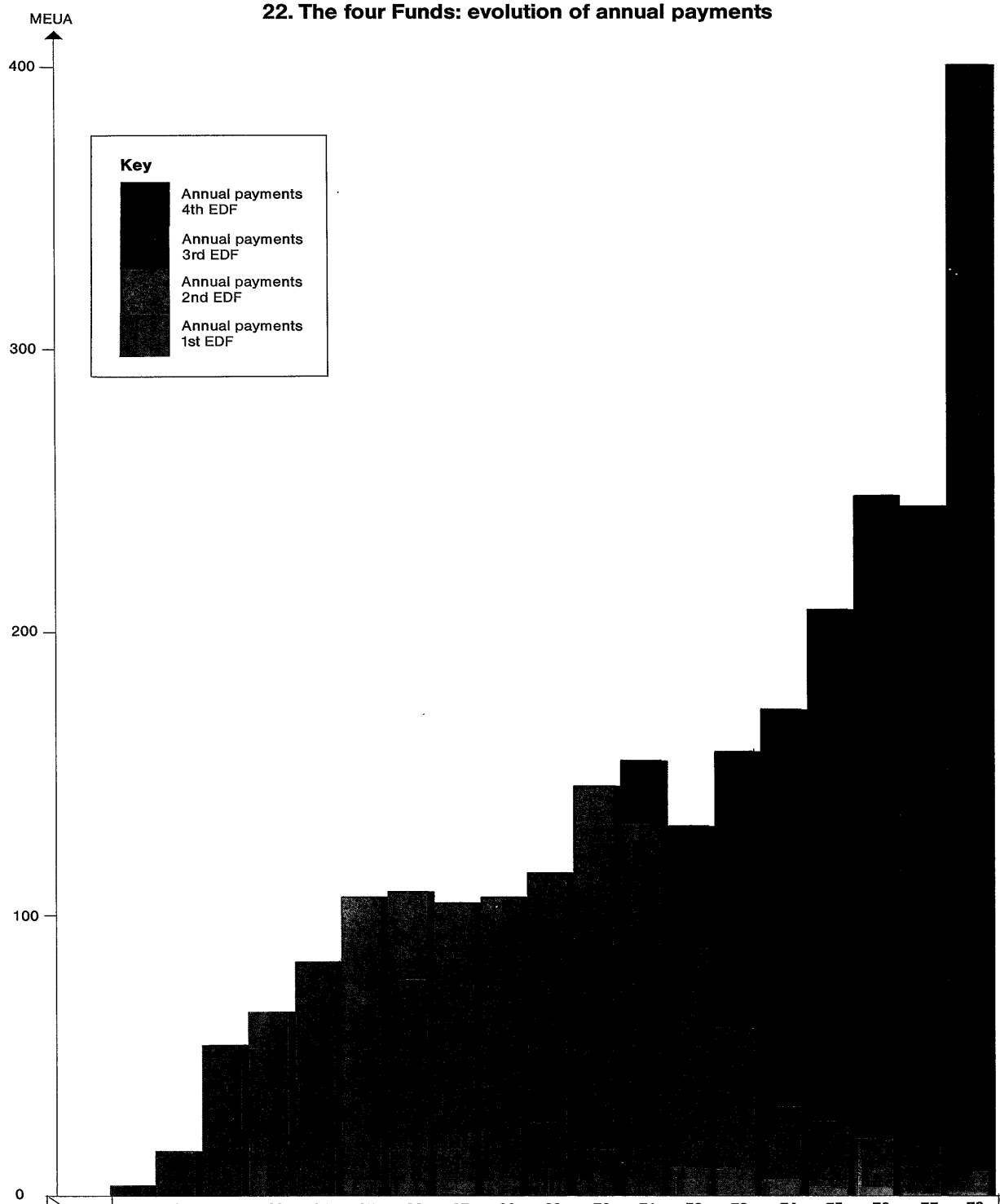
21. The four Funds: evolution of resources available and their utilization

(million EUA)

		1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
1st EDF	Resources available	581·3	581·3	581·4	581·6	581·9	582·3	582·6	582·9	582·3	582·5	582·5	582·5	581·5	581·5	572·5	571·3	571·3	570·7	570·6	570·1 (100 %)
	Cumulative global commitments	51·2	114·7	286·7	449·0	504·5	539·6	576·1	577·8	577·9	574·6	574·3	574·5	573·8	573·2	570·9	569·9	570·7	570·0	570·1	569·9 (99·9 %)
	Cumulative final commitments	5·1	13·5	66·7	130·4	233·6	344·7	414·7	481·5	502·2	523·5	534·0	543·7	550·0	558·3	564·8	567·4	569·0	568·5	569·1	568·8 (99·8 %)
	Cumulative payments	—	3·4	19·1	72·5	137·7	221·1	306·0	382·7	444·4	483·0	508·7	524·8	536·2	546·3	556·2	561·7	564·1	567·0	567·5	568·3 (99·7 %)
2nd EDF	Resources available						730·0	730·0	730·0	730·0	730·0	731·2	731·5	733·0	733·6	742·5	740·0	740·0	740·6	740·8	735·0 (100 %)
	Cumulative global commitments						—	212·3	368·1	474·0	595·1	699·8	710·3	713·6	720·8	717·7	721·3	726·5	734·8	734·1	733·9 (99·9 %)
	Cumulative final commitments						—	48·6	91·6	150·0	259·0	395·9	534·9	602·3	645·9	667·1	686·9	697·4	709·0	723·6	728·5 (99·1 %)
	Cumulative payments						—	21·9	53·5	96·4	164·2	253·6	383·1	503·6	582·2	631·7	657·5	680·9	698·1	714·4	722·3 (98·3 %)
3rd EDF	Resources available													900·0	900·3	905·6	907·4	909·4	909·7	905·2	911·5 (100 %)
	Cumulative global commitments													232·8	438·3	637·7	790·4	856·5	875·8	875·8	893·2 (98·0 %)
	Cumulative final commitments													37·2	136·2	321·4	498·9	640·6	744·0	807·8	831·1 (91·2 %)
	Cumulative payments													22·5	65·3	163·8	304·4	487·1	618·1	697·9	763·9 (83·8 %)
4th EDF	Resources available																		3 152·5	3 155·2	3 175·3 (100 %)
	Cumulative global commitments																		382·2	1 089·9	1 653·8 (52·1%)
	Cumulative final commitments																		134·5	450·8	985·7 (31·0%)
	Cumulative payments																		97·5	245·5	571·8 (18·0%)

Diagram No 12

22. The four Funds: evolution of annual payments



(MEUA)

Year / EDF	1960	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	Cumulative payments
1st EDF	3·4	15·8	53·3	65·3	83·4	84·8	76·7	61·7	38·6	25·6	16·1	11·4	10·1	9·9	5·5	2·4	2·9	0·5	0·8	**568·3**
2nd EDF						21·9	31·6	42·9	67·9	89·4	129·5	120·5	78·6	49·4	25·9	23·4	17·2	16·3	7·9	**722·3**
3rd EDF												22·5	42·8	98·5	140·6	182·7	131·0	79·8	66·0	**763·9**
4th EDF																	97·5	148·1	326·3	**571·8**
Total	**3·4**	**15·8**	**53·3**	**65·3**	**83·4**	**106·7**	**108·3**	**104·6**	**106·5**	**115·0**	**145·6**	**154·4**	**131·5**	**157·8**	**172·0**	**208·4**	**248·6**	**244·7**	**401·0**	**2 626·3**

Table IX

23. The four Funds: breakdown of cumulative global commitments and cumulative payments by recipient country
(position at 31 December 1978)

(million EUA)

A. Total aid for ACP countries and OCT/OD

Country	Cumulative payments					Cumulative global commitments of the four EDFs
	1st EDF	2nd EDF	3rd EDF	4th EDF	Total	
Madagascar	56·4	68·3	60·9	9·9	195·5	236·3
Senegal	43·0	60·7	57·6	32·9	194·2	234·8
Cameroon	52·1	53·3	56·2	15·1	176·7	215·1
Ivory Coast	39·7	58·8	53·9	21·6	174·0	207·6
Zaire	18·0	79·3	50·9	17·5	165·7	246·0
Niger	31·1	31·6	45·8	55·1	163·6	195·1
Mali	42·3	33·8	47·6	14·4	138·1	193·2
Upper Volta	29·5	30·7	43·5	22·4	126·1	148·5
Chad	28·4	33·1	37·7	17·8	117·0	155·2
Congo	24·6	22·5	25·2	15·6	87·9	103·6
Benin	20·3	22·3	22·5	19·3	84·4	112·9
Somalia	9·8	27·8	31·0	10·3	78·9	111·7
Central African Empire	16·7	27·7	28·3	5·7	78·4	94·6
Togo	15·6	20·2	27·0	15·1	77·9	99·9
Mauritania	15·4	18·1	24·0	19·8	77·3	87·3
Rwanda	5·1	22·1	30·9	16·0	74·1	125·8
Burundi	5·0	21·1	31·3	8·5	65·9	92·5
Gabon	17·5	21·0	22·2	1·6	62·3	71·7
Surinam	16·9	13·1	8·0	0·8	38·8	53·6
Other countries:						
Algeria	25·2	—	—	—	25·2	26·0
Comoros	3·3	2·6	3·7	3·7	13·3	17·8
Jibuti	1·2	1·9	1·5	0·9	5·5	7·9
West Irian	4·1	—	—	—	4·1	4·1
Mauritius	—	—	2·8	4·1	6·9	17·6
(Total other countries)	(33·8)	(4·5)	(8·0)	(8·7)	(55·0)	(73·4)
Aid for the benefit of several countries	2·2	8·4	14·5	47·7	72·8	162·9
Total of the countries which only benefit from the 4th EDF (1)	—	—	—	189·2	189·2	675·2
Total OCT/OD (2)	44·9	43·9	36·9	6·8	132·5	153·9
Total	**568·3**	**722·3**	**763·9**	**571·8**	**2 626·3**	**3 850·8**

(million EUA)

B. Aid for countries which only benefit from the 4th EDF

Country	Cumulative payments of the 4th EDF	Cumulative global commitments of the 4th EDF
Tanzania	23·8	87·1
Kenya	20·7	78·6
Ethiopia	19·3	70·4
Zambia	16·6	34·2
Ghana	13·2	48·4
Malawi	12·3	46·6
Sudan	12·1	47·9
Guinea Bissau	9·1	22·0
Other countries:		
Bahamas	0·2	1·2
Barbados	1·2	2·2
Botswana	2·9	19·3
Republic of Cape Verde	—	1·8
Fiji	4·8	11·7
Gambia	2·4	8·1
Grenada	0·1	2·0
Guinea	6·0	55·9
Equatorial Guinea	0·0	0·0
Guyana	1·0	8·4
Solomon Islands	1·3	2·7
Jamaica	3·0	16·8
Lesotho	3·6	14·2
Liberia	4·4	22·5
Nigeria	3·8	5·2
Uganda	6·4	10·2
Papua New Guinea	1·3	3·1
Western Samoa	2·3	6·4
Sao Tome and Principe	0·0	1·4
Seychelles	0·0	2·5
Sierra Leone	6·6	18·7
Swaziland	7·7	14·9
Tonga	1·4	3·3
Trinidad and Tobago	1·7	7·5
(Total other countries)	(62·1)	(240·0)
Total	**189·2**	**675·2**

(million EUA)

C. Aid for OCT/OD

Country	Cumulative payments					Cumulative global commitments of the four EDFs
	1st EDF	2nd EDF	3rd EDF	4th EDF	Total	
French:						
Reunion	8·9	9·2	8·7	0·2	27·0	27·5
Guadeloupe	4·4	4·7	5·8	0·2	15·1	15·2
Martinique	6·7	3·6	4·3	0·2	14·8	14·9
French Polynesia	4·4	0·9	2·9	—	8·2	8·2
New Caledonia	2·2	4·0	2·1	0·0	8·3	8·7
French Guiana	1·9	2·9	2·7	0·1	7·6	9·2
St Pierre and Miquelon	3·0	0·6	0·0	—	3·6	3·6
Wallis and Futuna Is.	—	0·6	0·7	0·0	1·3	1·4
New Hebrides	—	—	—	0·7	0·7	0·7
French total	**31·5**	**26·5**	**27·2**	**1·4**	**86·6**	**89·4**
Dutch:						
Netherlands Antilles	**13·4**	**17·4**	**9·7**	**0·9**	**41·4**	**53·8**
British:						
Associated States in the Caribbean (3)	—	—	—	2·3	2·3	7·4
Gilbert Islands	—	—	—	1·1	1·1	1·1
New Hebrides	—	—	—	0·7	0·7	0·7
Belize	—	—	—	0·3	0·3	0·8
Tuvalu (4)	—	—	—	0·1	0·1	0·1
British Virgin Islands	—	—	—	—	—	0·3
Cayman Islands	—	—	—	—	—	0·3
British total	**—**	**—**	**—**	**4·5**	**4·5**	**10·7**
Total	**44·9**	**43·9**	**36·9**	**6·8**	**132·5**	**153·9**

D. Countries which have not yet benefited:

French OCT: Mayotte

British OCT: Brunei, Montserrat, Falkland Islands, St Helena, Pitcairn, Turks and Caicos Islands

(1) For detailed figures see section B of this table.
(2) For detailed figures see section C of this table.
(3) Including Dominica which gained independence on 3 November 1978 but which still benefits on a temporary basis from the OCT scheme.
(4) Gained independence on 1 October 1978 but still benefits on a temporary basis from the OCT scheme.

Diagram No 13

24. The four Funds: breakdown of cumulative global commitments and cumulative payments by recipient country
(position at 31 December 1978) (for detailed figures see Table IX)

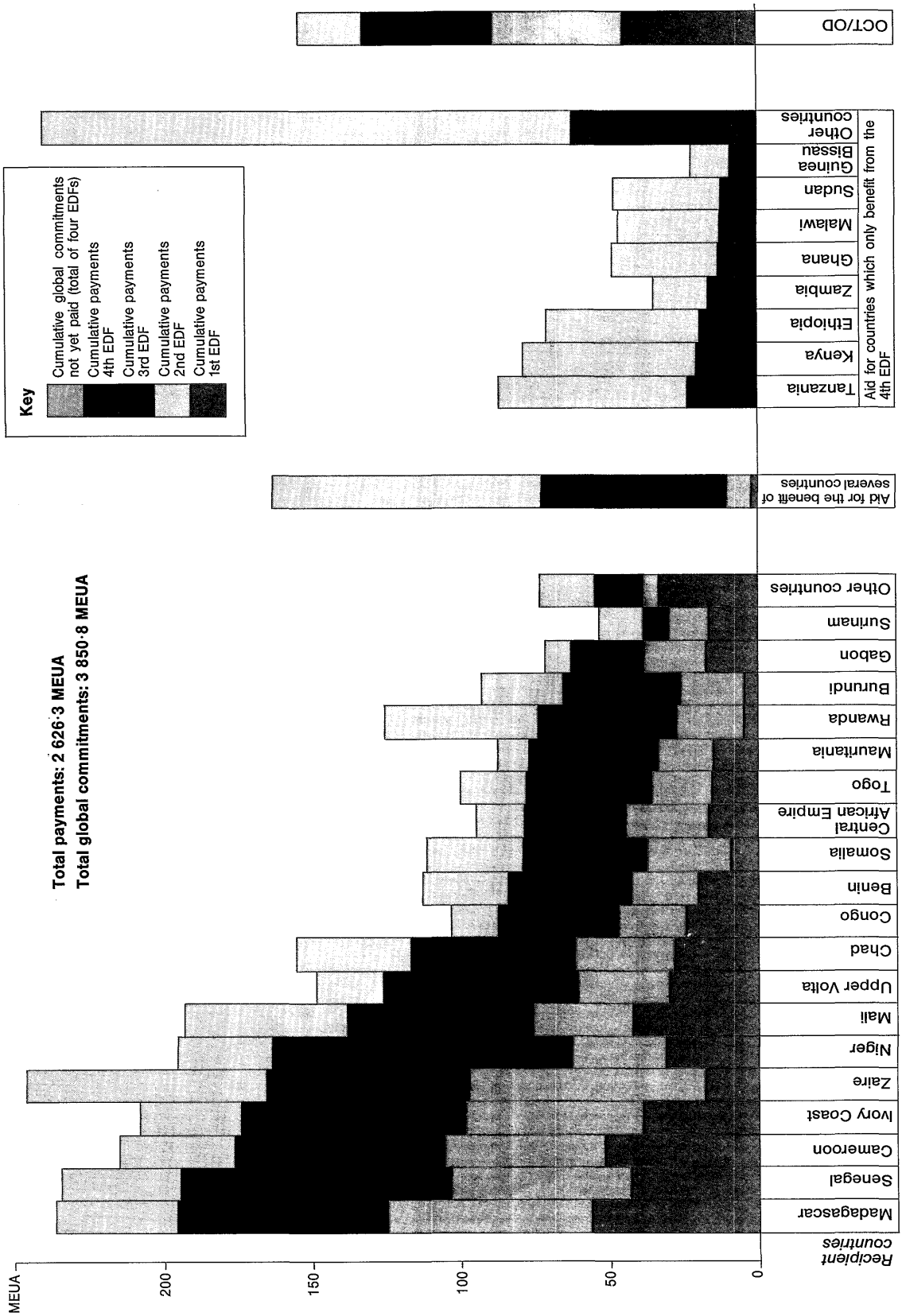
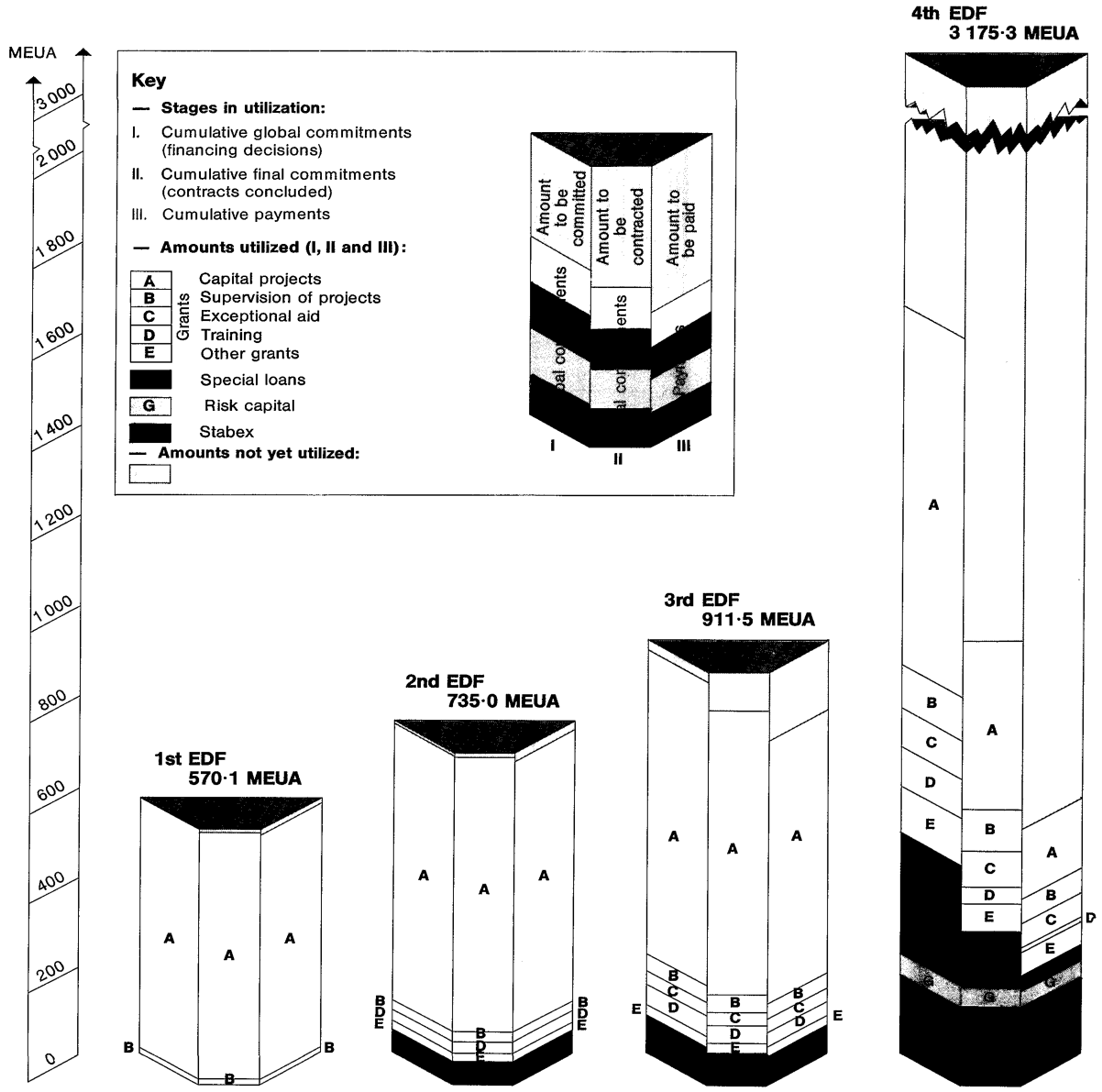


Diagram No 14

25. The four Funds: utilization of resources available – by type of aid and project
(position at 31 December 1978)

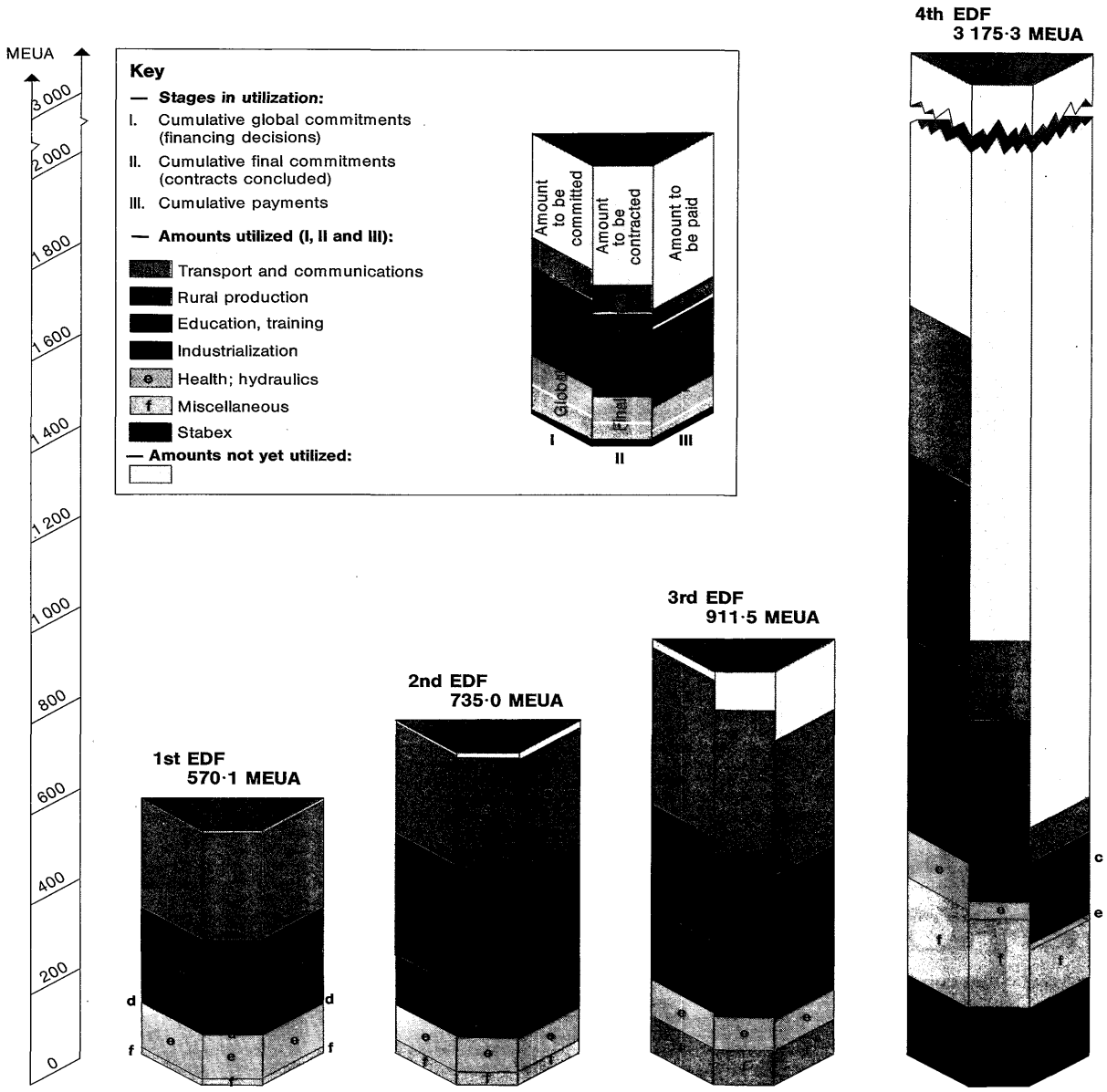


	I	II	III	I	II	III	I	II	III	I	II	III
(A) Capital projects	559·5	558·4	557·9	619·7	614·8	608·9	671·7	630·2	584·2	792·4	368·2	157·0
(B) Supervision of projects	10·4	10·4	10·4	20·6	20·6	20·6	37·3	37·3	37·3	92·3	91·2	54·4
(C) Exceptional aid	—	—	—	—	—	—	30·5	30·4	30·2	86·1	82·4	58·0
(D) Training	—	—	—	26·7	26·7	26·7	44·3	40·3	32·0	84·9	34·5	7·4
(E) Other grants	—	—	—	16·9	16·8	16·8	21·2	20·5	20·3	103·3	64·0	53·3
(F) Special loans	—	—	—	50·0	49·6	49·3	88·2	72·4	59·9	268·8	124·3	34·7
(G) Risk capital	—	—	—	—	—	—	—	—	—	50·7	45·8	31·7
(ST) Stabex	—	—	—	—	—	—	—	—	—	175·3	175·3	175·3
Total	**569·9**	**568·8**	**568·3**	**733·9**	**728·5**	**722·3**	**893·2**	**831·1**	**763·9**	**1 653·8**	**985·7**	**571·8**

MEUA

Diagram No 15

26. The four Funds: utilization of resources available – by economic sector
(position at 31 December 1978)



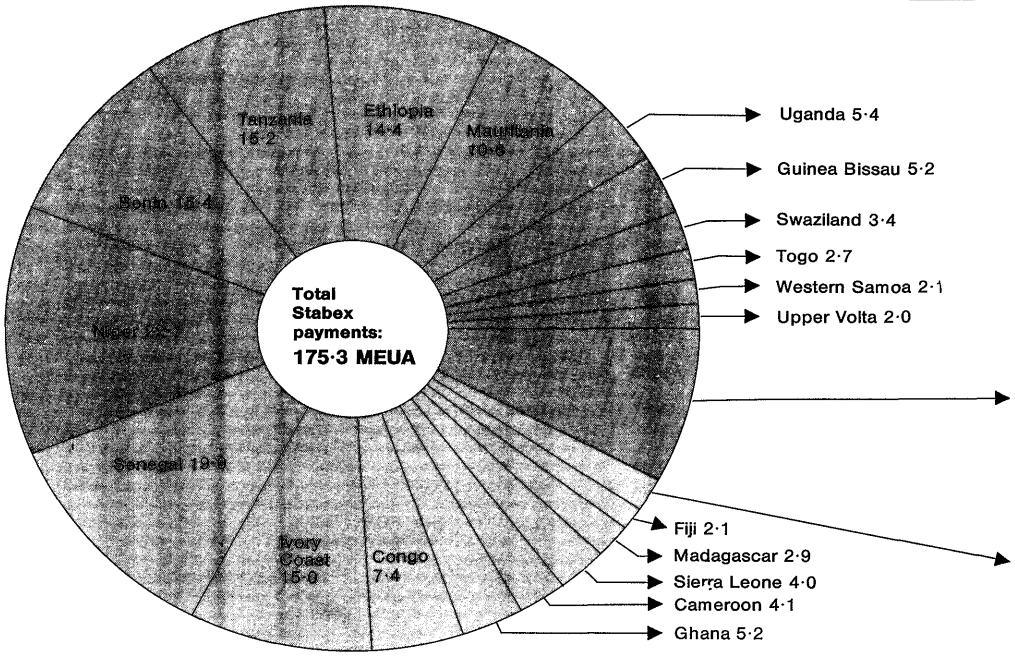
	I	II	III	I	II	III	I	II	III	I	II	III	
(a) Transport and communications	248·3	248·2	248·0	246·1	244·4	243·7	335·0	318·4	301·4	322·7	176·8	73·3	
(b) Rural production	94·1	94·1	94·1	271·3	269·9	267·4	236·3	217·1	199·0	406·4	145·1	59·8	
(c) Education, training	111·0	110·3	110·1	65·5	64·5	64·0	100·0	90·2	69·7	144·8	51·1	12·4	MEUA
(d) Industrialization	4·1	4·1	4·1	42·3	42·0	41·8	55·0	53·0	50·2	279·6	203·6	111·5	
(e) Health; hydraulics	98·4	98·1	98·0	79·3	78·3	76·0	82·0	68·3	60·1	103·5	36·2	10·5	
(f) Miscellaneous	14·0	14·0	14·0	29·4	29·4	29·4	84·9	84·1	83·5	221·5	197·6	129·0	
(ST) Stabex	—	—	—	—	—	—	—	—	—	175·3	175·3	175·3	
Total	**569·9**	**568·8**	**568·3**	**733·9**	**728·5**	**722·3**	**893·2**	**831·1**	**763·9**	**1 653·8**	**985·7**	**571·8**	

Diagram No 16

27. The fourth Fund – Stabex: cumulative payments by recipient country and by product
(position at 31 December 1978)

Key
- Non-reimbursable
- Reimbursable

(a) Payments by country:
(amounts in MEUA)



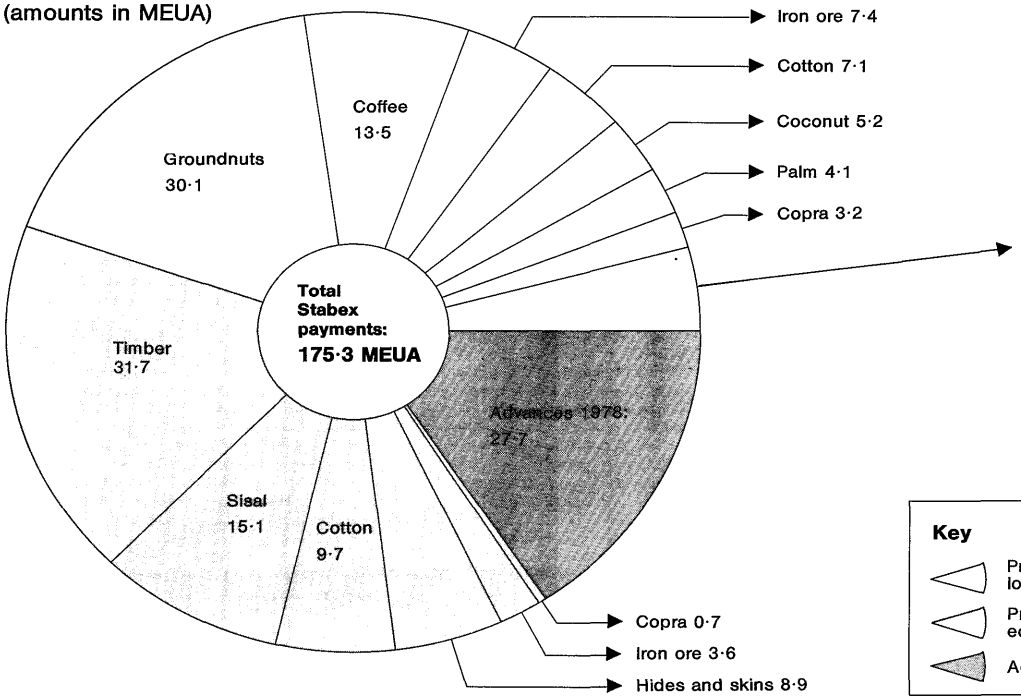
Other countries:

Somalia	1·9
Comoros	1·7
Sudan	1·7
Gambia	1·5
Mali	1·5
Burundi	1·5
Solomon Islands	1·3
Tonga	0·9
Central African Empire	0·9
Jibuti	0·7
Tuvalu	0·1

Other countries:

New Hebrides	1·4
Gilbert Islands	1·1
Belize	0·3

(b) Payments by product:
(amounts in MEUA)



Other products:

Cloves	1·7
Bananas	1·5
Tea	1·4
Gum arabic	0·8
Timber	0·8
Cocoa	0·7
Ylang Ylang	0·2
Hides and skins	0·2

Key
- Products having suffered from local circumstances
- Products having suffered from economic circumstances
- Advances 1978

ANNEX II

THE EUROPEAN PARLIAMENT

Replies to the comments of the Court of Auditors concerning the financial year 1978

8.13. **Need to speed up the settlement of mission expenses**

In the European Parliament the settlement of mission expenses is a major problem and for many years the administration has been endeavouring to cope, in the first instance, through the recruitment of additional auxiliary staff, with the ever-increasing volume of work in this sector: 9 000 missions in 1976, 12 000 in 1979.

At the same time, the administration set about computerizing its accounts and, once the necessary data processing equipment was made available, developed a relatively simple computer program that has enabled it to catch up on the main backlog of work, i.e. that created by the numerous missions to Strasbourg and Brussels.

At present, a more elaborate program applicable to all mission venues is being tested. The application of data processing techniques should solve one of the many difficulties connected with missions which, taken as a whole, pose especially formidable problems for Parliament.

8.14. **Payment of a supplement to the daily allowance**
8.15. **for exceptional expenditure incurred on mission**
8.16. **(Staff Regulations: Annex VII, Article 13 (6) (c)**

The bureau had to face up to the fact that, in the absence of an indexing system analogous to that applicable to salaries, adjustment to the scale of mission allowances to take account of actual hotel and restaurant charges could be made in conformity with the Staff Regulations only on the basis of a broad interpretation of Article 13 (6) (c) of Annex VII thereto.

The bureau has always arrived at its decisions after careful deliberation, never compensating immediately or in full for the price increases recorded in the hotel trade.

After receiving the official opinion of the financial controller on these decisions and fully realizing the unusual and exceptional nature of the procedure it was introducing, the bureau felt that, in view of the number and the frequency of the missions undertaken by officials and the fact that most of these officials were in the lowest income bracket, it was obliged as a matter of urgency to find a rapid and provisional solution to this problem of mission expenses and allowances.

A permanent solution is possible only if a change is made in the procedure hitherto followed by the Council of Ministers for adjusting the fixed mission allowances to the expenses actually incurred on mission.

8.41. **Right of access of the financial controller to all relevant documents and accounts**

The right of the financial controller to report at any time to the institution on any matter having

financial implications (pursuant to Article 11 of the implementing rules of the Financial Regulation) is a necessary right, since it allows him to draw to the attention of his superiors any attempt to obstruct him in the performance of his duties.

In the event, Parliament's financial controller has never had cause to invoke this right.

8.47. 8.48. 8.49. Need for an analytical rather than a chronological classification of accounting documents

The classification by budget item of every payment authorization would require a system whereby every authorization related to a single item only. Since it is not uncommon for a payment authorization to be charged to several budget items, the system recommended, for its own needs, by the Court of Auditors would mean that the original of the authorization would have to be filed under one of the items concerned and a photocopy under each of the other items.

Parliament cannot meet the Court's request but will endeavour, as part of the analytical accounting system it intends to introduce once it has acquired adequate data-processing facilities, to take into account the auditing requirements of both the internal and the external control authorities.

8.50. 8.51. Studies relating to the optimum organization and management of the institution

Since the establishment of the Parliament, many bodies have undertaken studies of the best possible use that might be made of the staff placed at its disposal or to be recruited by it.

These studies have not been facilitated by the fact that the institution is constantly increasing in size. The latest proposal, put forward by Mr Robert Jackson, Rapporteur of the Committee on Budgets (see point 19 (IV) of Doc. PE59.994 of 13 October 1979), is that, in order to help the European Parliament make an assessment of its needs, an independent study of the institution's organization and management should be carried out.

8.52. 8.53. Lack of 'systematic cooperation' between the language services of the institutions

Parliament is fully prepared to cooperate with the other institutions with a view to establishing a common system preparatory to the use of the new techniques mentioned by the Court of Auditors for the translation and reproduction of documents.

In the meantime, Parliament's language service has no option but to rely on inter-departmental cooperation, even though it may not be systematic in the way envisaged by the Court of Auditors.

8.54. 8.55. 8.56. Absence of a legal, financial and accounting framework for bodies financed from 'extra-budgetary' resources

First of all, it is essential to differentiate between the bodies and activities that are managed:

— jointly by the institutions, e.g. the crèches, special classes, the various sports and cultural activities, etc. These are supervised by the Inter-institutional and Joint Committee, otherwise known as the SAC (Social Activities Committee),

— the institution alone, notably its restaurant and staff shop.

In the first case, Parliament's financial controller has explained to the SAC administrators the need for and the value of a clear legal, financial and accounting system. Parliament's administration has long been prepared — after unofficially securing, via its financial controller, the agreement of principle of the other institutions — and still is prepared to provide the necessary accounting and financial control services in respect of social activities in Luxembourg.

In the second case, and particularly as far as Parliament's restaurant and staff shop are concerned, the Court of Auditors has been able to satisfy itself at first hand that, on the whole, the financial management has been sound.

9.18. **Absence of rules applicable to entertainment expenditure**

Irrespective of whether the guests are members of Parliament, other persons or even officials, the decision to hold a reception and to determine how it should be organized always rests with the President of Parliament. Indeed, it is he/she who issues the invitation, either on his/her own initiative or on a proposal from the Bureau, the committee chairmen or the Secretary-General. This is why most of the relevant expenditure is entered against Item 2400.

The material organization of receptions — and, in the first instance, the preparation of the list of guests — is the responsibility of the head of the Protocol Division. One of his duties is to set a reasonable limit on the number of persons to be invited. Depending on the importance of the guests, the place of the reception and local facilities (which vary considerably according to the city, country or continent concerned), the expenditure is subject to a prior expenditure commitment, and this is invariably preceded by the approval of the President and, where necessary, the opinion of the ACPC (Advisory Committee on Procurements and Contracts).

This is not the first time that the Court of Auditors has made the comment appearing in point 9.18. On several occasions in the past Parliament, in its reply, has indicated that the list of guests (or list of persons 'likely' to attend a reception) could easily be submitted to the Court, although this would serve no great purpose. It has also pointed out, however, that it is not possible to forward the complete list of 'participants' as this would entail ticking them off at the entrance to the place at which the reception was held or making a physical check of the guests present.

9.19. **Reception for staff traditionally given by each new President**

Until the recent direct elections, the term of office of the President was approximately two years. The three Presidents elected during the past six years established the tradition of inviting all members of the staff and their husbands or wives to a reception at the beginning of their term of office. Obviously, six years ago the Secretariat did not comprise 2 000 officials and other servants, as it does today.

A reception for 2 000 members of staff and their spouses would mean issuing about 3 500 invitations, giving an attendance of around 1 800.

The high cost of the reception given in early 1978 is attributable to the large number of guests, rental of the premises, expenditure on the decoration and heating of these premises, which were very large, and the substantial increase in prices in the restaurant and catering trades.

9.24. **Fixed representation allowance of the President. Reassessment of the charging of expenditure on large-scale receptions for the members of other institutions**

As the Court of Auditors itself points out, the practices adopted in the other institutions reveal certain inequalities, the importance of which is difficult to assess in the absence of any clear guidelines.

Parliament considers that the role and, hence, the particular 'personality' of each institution is such that it is capable of laying down suitably 'clear guidelines' in regard to its representational activities. Since the requirements of an institution are properly understood by that institution alone and are not necessarily the same for all the institutions, any attempt to establish, in line with the wishes of the Court, a common nomenclature for the entertainment activities in question will most probably fail, since they are bound to differ. Nevertheless, Parliament is prepared to help try to devise a 'common system' and the attendant rules and procedures.

9.32. 9.33. **Expenditure on the information campaign for the election of Parliament by universal suffrage**

It should be pointed out that there were in fact two campaigns:

— one conducted jointly by the Commission and Parliament,

— the other also conducted by these two institutions, but with each carrying out its own projects.

The total allocation of 8 500 000 EUA for the joint campaign, which was called the 'main' campaign and mounted during the 1978 and 1979 financial years, was divided as follows:

— five million EUA for the European Parliament (three million EUA for 1978 and two million EUA for 1979),

— 3·5 million EUA for the Commission (three million EUA for 1978 and 0·5 million EUA for 1979).

The 8 500 000 EUA were also divided between the Member States as follows:

	EUA
Belgium	510 000
Denmark	297 500
Germany	1 700 000
France	1 700 000
Italy	1 700 000
United Kingdom	1 700 000
Luxembourg	85 000
Netherlands	510 000
Ireland	297 500

The allocation of 1 815 000 EUA for the separate campaign, which was called the 'interim' campaign and carried out in 1978 by Parliament's Directorate-General for Information (in agreement with the Consultative Committee on Information) was used as follows:

	EUA
Information seminars	380 000
Extra staff	350 000
Publications	175 000
Decentralized projects (entrusted to the EP's external offices)	750 000
Audio-visual sector	90 000
Contingency reserve	70 000

As regards the contracts concluded in each Member State with a public relations firm, the Court of Auditors apparently has misgivings about the fairness of the conditions of competition laid down and the final choices made. Parliament is able to give the following assurances.

In each country concerned the services offered by the firms and the corresponding charges were considered only if they were found to conform to established professional standards. The final choice in each case was made on the basis of the quality and the range of the services offered and their compatibility with the objectives set out in meticulous detail in a document appended to the invitation to tender. However, the nature of the publicity campaign to be mounted was left to the firm to decide. Accordingly, the price factor mentioned by the Court of Auditors is only of limited importance.

ANNEX III

THE COUNCIL

Replies to the comments of the Court of Auditors concerning the financial year 1978

CHAPTER 1 OF THE COMMENTS: GENERAL POINTS RELATING TO THE 1978 ACCOUNTS

1.4. Regulation on the procedure for applying the EUA to legal acts adopted by the institutions of the European Communities

1. The Council forwarded joint guidelines to the European Parliament on 24 July 1978 as part of the conciliation procedure. This procedure has not yet been completed.

2. The Regulation on the procedure for applying the EUA to legal acts adopted in the customs sphere was adopted by the Council on 23 November 1978 (OJ No L 333, 30. 11. 1978).

3. It should be recalled that the Council approved at its meeting on 21 December 1977 a text entered in the minutes of that meeting establishing the arrangements applicable pending the entry into force of the Regulation referred to in point 1.

1.22. Measures implementing the Financial Regulation

According to Article 106 of the Financial Regulation, the Commission shall adopt implementing measures for the Financial Regulation in consultation with the Council and the European Parliament.

The Council has to date not yet been consulted by the Commission on the implementing measures in question.

CHAPTER 8 OF THE COMMENTS: STAFF EXPENDITURE

Settlement of claims for mission expenses

8.10 to 8.13. The Council notes that this problem does not arise at the General Secretariat as claims for mission expenses were settled reasonably quickly in 1978.

8.17. The General Secretariat will adhere more strictly in future to the provisions of Article 32 of the Financial Regulation.

Financial control

8.40. The Council's financial controller carries out his duties in accordance with the provisions of the Financial Regulation.

8.41. All the documents he considers necessary for the task he has to perform are placed at his disposal. However, in view of their confidential nature (see also the last subparagraph of Article 26 of the Staff Regulations), individual files are not sent to the financial controller.

Furthermore, all payment orders are accompanied by supporting documents as determined by the measures of 30 June 1975 implementing certain provisions of the Financial Regulation of 25 April 1973.

Classification of supporting documents

8.49. The Council takes the view that there should be standard rules on this question which should be applied by all the institutions.

It requests the Court of Auditors to provide more information on the system of classification it recommends so that it can adopt the rules in question.

Audit of the administrative structures

8.50.
8.51. *Organization of the Council services*

The Court of Auditor's attention is drawn to the fact that the Council Secretariat has units both in the Secretary-General's Cabinet and in the Directorate for Administration whose task it is to advise the Secretary-General on problems of management and organization, with a view to enabling him to ensure that the services function smoothly.

CHAPTER 9 OF THE COMMENTS: OPERATIONAL EXPENDITURE

Budgetary accounting and control

9.9.
9.10. *End-of-year accounting procedures*

Application of the Financial Regulation does not pose the Council Secretariat any problems as regards end-of-year transactions. Charges were correctly made either against appropriations carried forward from the 1977 financial year or against appropriations in the 1978 budget, apart from an error involving the sum of 10·65 EUA (as regards this last point see the letter of 5 April 1979 sent by the Secretary-General to the Court of Auditors).

Approval was granted by the financial controller before the obligation had been entered into (see also in this connection the Secretary-General's letter of 5 April 1979).

Expenditure on entertainment and representation allowances and expenses

9.20. Receptions (lunches or dinners) are in the very large majority of cases given for members of the Council, the Permanent Representatives Committee and senior officials on visits from the various capitals.

These receptions are organized at the *request* of the President and after the Ambassador, Permanent Representative and Chairman of Coreper II has examined whether such meals are warranted.

It is impossible to draw up lists of participants, since there are always changes right up to the last minute. Absolutely definitive lists could only be drawn up afterwards, provided the Permanent Representations were prepared to cooperate.

ANNEX IV

THE COMMISSION

Replies to the comments of the Court of Auditors concerning the financial year 1978

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PART I

CHAPTER 1 — GENERAL COMMENTS

1.1 and 1.2. The Commission is gratified at the climate of mutual confidence that has been established between itself and the Court of Auditors. Its replies were drafted in the spirit of constructive collaboration. They are the result of a free and open dialogue which was designed to highlight facts objectively for the Court of Auditors and inform the discharge authority on matters raised by the Court.

In the rare instances where the views of the Court and the Commission diverged, the Commission has carefully weighed the arguments it used in stating its position. The Commission is convinced that the detailed discussion procedure followed this year will permit the publication of a report, together with the replies of the institutions but without comment, replication or rejoinder.

1.5 to 1.7. **Under-utilization of payment appropriations**

The Court of Auditors' reference to the under-utilization of payment appropriations and the underlying problems of delay in executing policies, presenting claims and clearing these for payment touches on a widespread and intractable problem which the Commission is determined to remedy by all the means in its power.

The causes of delays are multiple and complex and, as the Court recognizes, responsibility devolves in large measure on the other agencies involved and in fact can not properly to any significant extent be laid at the door of the Commission.

The specific problems arising over the implementation of payment appropriations in 1978 are discussed in the Commission's report on 'the financial situation of the European Communities at 31 December 1978' (COM(79) 125), and, wherever possible, the Commission has reacted to the difficulties and delays experienced by acting to accelerate payments, or by making more prudent estimates of future cash needs, in the various fields concerned.

In general the emphasis of the Commission's approach to this matter has been on improving (e.g. by more liberal rules for issuing advances) the procedures involved and enabling or encouraging those responsible to deal more quickly with the submission and clearance of claims. It is important, however, to realize that for large areas of expenditure the Commission does not exercise a decisive influence on the speed of implementation of the budget.

If, for reasons outside its control, the steps taken do not lead to the level of improvement hoped for, the Commission agrees with the Court that it may be necessary to place still more emphasis on abating estimated cash needs on the basis of past performance.

It is evident, when all is said and done, that certain difficulties will persist in this field. For example, the Commission cannot responsibly underprovide for the expected cost in cash of a given policy in its budget proposals merely because difficulties could arise in generating the payments resulting from the policy concerned.

1.22. The Commission agrees with the Court of Auditors' comment on the implementing measures for the Financial Regulation.

However, the Commission has quite deliberately delayed revision of the 1975 implementing measures pending important decisions directly related to the budget, such as the adoption of the proposal for a Regulation applying the European unit of account to the legal acts adopted by the institutions of the European Communities and the proposals for amending the Financial Regulation submitted by the Commission on 15 June 1978 and 23 April 1979 respectively.

It should be possible to make a general revision of the Financial Regulation in 1980.

CHAPTER 2 — EAGGF, GUARANTEE SECTION

FUNCTIONING OF BUDGETARY PROCEDURES

Transfers

2.5. The Court points out that the last transfer proposal presented on 26 March 1979 was not within the statutory time limit. Article 101 of the Financial Regulation of 21 December 1977 applicable to the

budget of the European Communities does in fact lay down that the Commission may submit proposals to the Council for transfers of appropriations between chapters not later than one month before 31 March of the following financial year. The Court made the same comment for the 1977 financial year. External constraints over which it has no influence make it difficult for the Commission to adhere to this deadline. It does not know what appropriations have been used until it receives the Member States' statements, which have to be sent by 20 February.

Since the transfer proposals are submitted to the EAGGF Committee, which discussed the transfer on 13 March, the Commission was unable to present the transfer to the Council until 26 March.

It is extremely difficult to adhere to the time limits laid down by Article 101 of the Financial Regulation for transfers.

Delay in commitment and charging as payment

2.7. There have indeed been serious delays in the monthly charging of commitments and payments. The improvement which the Commission had hoped to make in 1978 was dependent on computerization; this has been seriously delayed because of problems in developing organic analysis and programing. There has, however, been some improvement in the rate of monthly chargings despite the continued use of manual operation and further complications created by the introduction of the EUA.

Delays in sending vouchers

2.8. This matter was rectified as soon as the Commission's attention was drawn to it by the Court of Auditors. The vouchers for the last quarter were forwarded to the Court of Auditors within the time limit laid down by Article 79 of the Financial Regulation.

Carry-overs

2.9. Since the EUA was not yet used in the budget in 1977 a problem did arise in calculating carry-overs of appropriations which had to be expressed in EUA in 1978.

As there are no Council rules on this matter, the Commission agreed upon what it thought to be the most suitable method, also bearing in mind the information supplied by AIMA. Council Regulation (EEC) No 2697/70 had not defined the concepts of payment. New Regulation (EEC) No 308/78, which is based on practical experience, marks an improvement in financial management defining various concepts including those of payment which may be made at Community level.

The Commission will continue to monitor the implementation of these rules at the budgetary and accounting level, in particular by AIMA.

Carry-overs from 1978 to 1979

2.10. The Commission agrees with the Court of Auditors that it would be better to make the non-marketing premiums for milk and premiums for conversion the complete responsibility of either the Guarantee or the Guidance Sections; this would improve their financial management.

The solution adopted by the Council is, however, the outcome of lengthy discussions and a compromise between divergent views.

Negative appropriations

2.11. The common agricultural policy does create problems which have had to be solved, e.g. the granting and collection of monetary compensatory amounts in intra-Community trade and financial participation of producers in the milk sector. At the financial level, these measures have had to be incorporated in existing financial legislation and the present budgetary structure. Negative appropriations were hence unavoidable and were — furthermore — accepted by the budgetary authority. The Commission does, however, believe that, as a general rule, negative appropriations should be avoided as far as possible.

The Commission does not accept that this procedure would provide a source of funds — the level of which is not fixed in the budget — for the Commission. The level of these funds is determined by monetary fluctuations in the case of MCAs or co-responsibility rates fixed by the Council in the milk sector. These negative appropriations are also taken into account for

the EAGGF as a whole in the preparation of the budget. It is true that extra funds are created if revenue exceeds estimates but this is also the case if payments are less than estimates for an item of expenditure.

Budgetary nomenclature

2.13. (a) Budgetary nomenclature is decided under the budgetary procedure laid down in Article 15 of the Financial Regulation. Thus, all amendments to the nomenclature in relation to the previous financial year proposed by the Commission are decided by the budgetary authority. It should be remembered that a number of nomenclature changes in the EAGGF, Guarantee Section were rendered necessary by the changes in the content of this budgetary sector in order to reflect *inter alia* those agricultural decisions which have new financial implications.

The Commission realises that over-frequent changes would be inadvisable, and therefore proposes changes only when it considers them to be essential.

It should also be emphasized that the nomenclature currently used in the EAGGF, Guarantee Section is the historical outcome of the creation and development of various common organizations of the market over a number of financial years. It would thus be appropriate to reappraise the entire nomenclature in such a way as to show the appropriations as consistently as possible: accordingly, the Commission departments responsible intend to tackle this problem at an early date and put forward suitable proposals when the time comes.

(b) The Commission does not share the Court's reservation on the use of Article 101 instead of Article 21 for transfers of appropriations used between Titles 6 and 7 and of the EAGGF, Guarantee Section and Chapters 44, 45 and 46 under which — in 1978 — appropriations were set aside for monetary compensatory amounts.

Article 95 of the Financial Regulation stipulates that special provisions should apply to expenditure under the EAGGF, Guarantee Section. If, for the sake of presentation, the budgetary authority considers it advisable that a proportion of the EAGGF, Guarantee Section appropriation be shown outside Titles 6 and 7, Articles 96 to 101 would still apply. The transfers referred to in Table 2 are thus made outside the context of Titles 6 and 7 and not outside the context of the EAGGF, Guarantee Section.

FINANCIAL MANAGEMENT

Estimates of expenditure

2.14. The underestimating of agricultural expenditure referred by the Court relates to three financial years out of five and is essentially the result of the differing calendars for the budgetary procedure and the procedure concerning the annual fixing of agricultural prices and associated measures; the reasons for this are that:

(i) hitherto it has always been the Council's wish to draw up a budget on the basis of existing agricultural Regulations, leaving out of account the effect of future price decisions;

(ii) the annual fixing of agricultural prices by the Council takes place before the beginning of the agricultural marketing years, i.e. between March and June, at a time when the budgetary procedure has been completed.

Management of available appropriations

2.16. The Commission acknowledges that there is a trend — especially in Italy and France — to hold unduly high liquid assets. This is the result of a number of factors referred by the Court in paragraph (d) and by the Commission in its annual financial reports on the EAGGF.

The administrative agencies in the Member States for handling payments and the methods used to draw up monthly estimates have a decisive effect on cash balances.

Moreover, insufficient working capital necessarily gives rise to an increased number of extraordinary advances.

The Commission has on several occasions asked Member States to tighten their control in respect of the submission of requests for advances, and will continue to try to keep cash balances to the bare requirements, especially in view of the fact that the rate at which the funds were used was higher in 1978 than 1977, i.e. 77 % compared with 64 %. As soon as the returns submitted by Member States are processed by computer, the Commission will be in a better position to strengthen its control over cash balances.

Over-estimate of certain appropriations

2.19. The Court makes the criticism that certain appropriations are over-estimated. The Commission, however, does not feel that the fact that some appropriations happened to be over-estimated and others under-estimated over more than one year can be seen as a deliberate effort to create reserves. The Commission makes every endeavour to draw up budgetary estimates which are as objective and valid as possible in often extremely difficult conditions and to improve its methods from year to year. There is thus clearly no attempt made to contrive a reserve in each chapter.

Estimates for cereals are based on the trends on production and in world market prices. If a harvest is slightly lower than expected — which was the case in 1977/78 — or world market prices rise (1974), expenditure will be considerably less than the estimates. Conversely, if a harvest is higher or world market prices lower, expenditure will exceed estimates, as was the case in 1972 and 1973. The situation is similar in the rice and pigmeat sectors. There is a long time lag in the granting of production aid for olive oil. The Italian administration's efforts to shorten this time lag led to a marked speeding-up in payments in 1973 and expenditure hence far exceeded estimates. Allowance has since been made in the preparation of the budget for some speeding-up in delayed payments. This time lag has, however, again become marked in 1979.

Another problem is the creation of an overall contingency reserve to cover additional expenditure whose financial impact is impossible to determine in advance: decisions by the (Agriculture) Council to alter prices or common market organizations, fluctuations in world prices, contingency measures, etc. This reserve may obviate the need for supplementary budgets; the Commission has proposed its creation on several occasions in previous preliminary draft budgets but its proposals have not been taken up so far by the budgetary authority and the Council in particular.

Co-responsibility levies and measures for expanding the market

2.20. With regard to the entry into the accounts by the EAGGF, Guarantee Section of revenue and expenditure arising from Council Regulation (EEC) No 1079/77 on a co-responsibility levy and on measures for expanding the markets in milk and milk products, it should be remembered that the expenditure arising from the measures for expanding the market were the political counterpart to the introduction of financial participation by the producers. Furthermore, this is borne out in the last two paragraphs of the preamble to Regulation (EEC) No 1079/77 which states:

> 'Whereas provision should be made for specific measures linked to the levy to encourage the expansion of markets and the disposal of surpluses on the Community and world markets;
>
> Whereas all the measures provided for in this Regulation are designed to stabilize the market in milk products and thus to supplement the existing intervention system; whereas care should therefore be taken to ensure that the arrangements for financing the common agricultural policy take account of the levies and expenditure entailed in the specific measures;'.

Also bearing in mind the Commission's reply to point 2.11 on negative appropriations, there were practically no other financial options open.

The implementation of measures for expanding the market has in fact been held up because new measures had to be devised, professional organizations consulted, regulations drawn up, invitations to tender sent out and hundreds of contracts concluded.

Anticipated depreciation of the value of stocks

2.21. Under EAGGF rules, until 1977 intervention stocks at 31 December had to be valued at their intervention price at that date. This rule created profits in the books in some cases for these stocks which artificially reduced expenditure in the year in question.

The rules were changed in 1978 to prevent this situation arising. Article 8 (1) of Council Regulation (EEC) No 1883/78 provides that intervention stocks carried over to the subsequent year must be valued at their purchase price.

On the other hand, the second paragraph of Article 8 contains provision for anticipated depreciation of the value of intervention products in relation to future disposal conditions within the framework of limiting criteria.

The degree of depreciation of value within the maximum amount authorized by the Council depends on estimated purchase prices. Such writing-down operations are carried out in the latter months of the

financial year solely on the basis of the appropriations still available.

This depreciation in the value of stocks of products also leads to savings since the funds blocked by the Member States and the interest charges borne by the EAGGF can be reduced.

As the Court rightly points out, the Commission has not failed to make a detailed examination in conjunction with the EAGGF Committee of the way in which Article 8 is implemented.

In its preliminary draft budget for 1980, the Commission has subdivided the budgetary heading of expenditure on public stocks into three parts, i.e. technical costs, financial costs and price disparity. The Commission does not think it appropriate to include a fourth subheading for the occasional implementation of the second subparagraph of Article 8 of Regulation (EEC) No 1883/78.

Final clearance of the accounts

2.26. The Commission confirms that it decided on the final closure of the accounts for the financial year 1973 on 12 October 1979; for the first time, these accounts included the nine Member States; its departments are currently giving priority attention to the consolidated auditing of accounts for 1974 and 1975.

Agri-monetary expenditure

2.29. It is true that the appropriations relating to monetary compensatory amounts do not fully reflect the monetary effects on EAGGF transactions. An entirely satisfactory solution would, however, oblige national governments with depreciated currencies to give up deducting the monetary compensatory amount from the refunds; this would significantly increase the already high number of cases dealt with, complicate the task of market operators and increase the risk of fraud. It should also be noted that the compensatory amounts are a temporary instrument whose financial impact is declining.

The effect of the dual rate

2.31. The Court of Auditors rightly points out that a number of changes have taken place in the monetary unit used to express agricultural appropriations, making it difficult to compare expenditure from one year to another; but these changes are the result of the gradual changeover to a new system, i.e.:

(a) the introduction of the EUA into the budget with effect from 1 August 1978, decided by the Council's Financial Regulation of 21 December 1977;

(b) the full alignment of the presentation of EAGGF, Guarantee Section appropriations with the new budgetary definition with effect from 1 January 1979;

(c) the introduction by Council Regulation (EEC) No 3180/78 of the ECU which was incorporated in the Acts of the common agricultural policy by Regulation (EEC) No 652/79.

After these various reforms, the dual rate no longer has the same significant effect as in the past, and this effect is weakening. We are now entering a period of stability in the monetary units used to express budgetary appropriations.

To help in comparing 1979 appropriations with those for 1978, the Commission has converted expenditure into EUA in its preliminary draft budget for 1980; comparable sets of statistics have also been introduced in the Commission's Financial Report on the EAGGF for the financial year 1978.

FRAUDS, IRREGULARITIES AND LOOPHOLES IN THE REGULATIONS

The application of Regulation (EEC) No 283/72

2.35 and 2.37. (a) The Commission is aware of the fact that, as yet, there has been no detailed examination of the communications (made by the Member States in accordance with Article 2 of the Regulation) of the provisions laid down by law, regulation or administrative action relating to the national control systems ; in the annual financial reports the attention of the Member States, the Audit Board and the Parliament has, since 1975, been drawn to this matter by the Commission by stating that this important work could not yet begin because of other priority activities to combat irregularities. However, some national control measures have been discussed by the EAGGF irregularities group when examining cases of irregularity. This was the case, for example, of the documentary procedures and other official procedures

used to control EAGGF payments on export refunds and monetary compensatory amounts.

(b) It is true that there is an imbalance in the communications made by the Member States in accordance with Articles 3 and 4 of the Regulation and that there is also a steady decrease in the number of cases reported; however, some explanation should be given about the two Member States which have communicated the largest number of cases in accordance with Article 3.

Between 1971 and 1978 Germany declared 369 cases, 154 of which were concerned only with one special measure in the cereals sector (Intervention B) which was applied only in that country and for a very limited period. Since 1973 the United Kingdom has communicated 232 cases, 130 of which were concerned with the non-payment of MCAs because of a shortcoming in the collection system applied by that Member State.

This system was improved more than a year ago.

When these cases are deducted, the annual number of cases is thus around one hundred.

The 'considerable decrease' in the amounts concerned, shown in Table 12, prompts the Commission to comment that 1976 and 1977 were marked by the discovery of a number of spectacular cases involving a large amount of money, some of which had extended over several years. It may thus be noted that:

— in 1976, nine cases (3·8 % of the total) involved 3·3 m.u.a., and

— in 1977, nine cases (5·9 % of the total) involved 6·1 m.u.a.

The Commission is therefore of the opinion that in view of the above analysis, the figures for 1978 (117 cases involving 3 m.u.a.) do not signify any decline in controls or in the system of communications.

(c) The Commission believes that the difference in the number of cases reported by the Member States may be explained by the following factors:

— varying interpretations of the term 'irregularities',

— differing instructions to out-stations departments by the department centralizing the data at national level.

Since Regulation (EEC) No 283/72 came into effect, the Commission and the Member States have agreed on the interpretation to be given to the term 'irregularity'. However, practical application seems to demonstrate the need for dealing with this problem in greater detail; the EAGGF departments are currently examining it.

(d) The Court rightly states that no solution has yet been found to the problem of charging the amounts definitively lost as a result of the irregularities; the Council's negotiations on Regulation (EEC) No 283/72 failed to resolve this problem. The Commission confirms its intention of resuming the examination of this problem as soon as this is administratively possible.

Loopholes in the Regulations

2.36. The Commission would point out that the specific case of rice is an example of a 'loophole' which can theoretically occur for any agricultural product to which monetary compensatory amounts do not apply. The problem is to know whether the difficulties created justify the introduction of monetary compensatory amounts. Since the difficulties are primarily the result of currency disparities and that these are tending to diminish — particularly with regard to the United Kingdom — and that the Commission would like to see monetary compensatory amounts disappear altogether, the Commission is not convinced of the advisability of extending the system to new products.

With regard to the notification of loopholes pursuant to Article 7 (4) of Regualtion (EEC) No 283/72, this provision was implemented in 19 cases.

In this context, emphasis should be placed on the role played by the management committees in the common organizations of the market. It is also the responsibility of these committees to draw the Commission's attention to loopholes in the regulations in their own specific sectors and to help remedy the situation immediately. Although there are no relevant statistics available, the host of amendments to Regulations published each year in the Official Journal is an indication of these efforts.

Budgetary forecasting

2.39. The Commission is gratified to note that the Court of Auditors realizes the difficulties in forecasting

expenditure by reason of the numerous factors involved and the often rapid changes in the estimated trend in expenditure. The Commission is aware of the importance of agricultural forecasts for the Community budget and is constantly endeavouring — within the limits of its administrative capabilities — to improve forecasting techniques.

Chapter 31: Expenditure in the agricultural sector

2.41. With regard to the Community accountancy data network, the Commission proposed in its preliminary draft budget for 1980 to introduce differentiated appropriations for Article 313. Accordingly, the financial management will be better suited to the specific characteristics of this accountancy data network.

CHAPTER 3 — EAGGF GUIDANCE SECTION

Effect on the conditions of competition of aid granted to individual projects

3.19 to 3.22. (a) As regards the effect on the aid granted to individual projects, Article 17 (2) of Regulation No 17/64/EEC, like Article 18 of Regulation (EEC) No 355/77, states that 'the granting of aid must not affect the conditions of competition in such a way as to be incompatible with the principles contained in the Treaty'. The Commission already had the opportunity — in connection with the Court of Auditors report on the financial year 1977 — to stress that it attaches particular importance to this problem and that various departments of the Directorate-General for Agriculture have been made responsible for monitoring market trends and giving opinions when the applications for aid are examined.

(b) The departments involved therefore possess the expertise enabling them to assess the position of an applicant on the market in question even if the application for aid does not contain precise information on the subject. It should also be pointed out that under Regulation (EEC) No 355/77 — which replaced Regulation No 17/64/EEC from 1 January 1978 as regards the processing and marketing of agricultural products — finance will be limited after a transitional period to projects forming part of sectoral programmes approved by the Commission. The content of these programmes and the examination procedure will therefore make it even easier to possess all the factors necessary to ensure compliance with Article 18 of this Regulation.

(c) There exists within the Directorate-General for Agriculture one department which deals with conditions of competition. If problems arise in this connection, collaboration with this department ensures that these aspects are given due weight.

None of the cases mentioned by the Court of Auditors involved the risk of a distortion of the conditions of competition incompatible with the principles of the Treaty.

To assess the effects of aid, the situation on the market in question must be considered. The mere fact that the potential beneficiary is the subsidiary of a multinational company or the most important undertaking in a certain sector does not suffice for an assessment of this type.

CHAPTER 4 — FINANCIAL ACTIVITY OF THE COMMUNITY IN THE SOCIAL SECTOR

Revenue and expenditure account

4.2. The Commission is satisfied that a system of presentation has been agreed with the Court which improves the clarity of the revenue and expenditure account.

Financial management

4.3 to 4.7. The report points out that the late communication to the Member States of the decisions for the second series delayed not only the finalization of the accounts for 1978 but also has not allowed for applications for advance payments to be made within the financial year. In the past, it has been the system to consider the second series of applications as late as possible in the year to allow time for the submission of as many applications as late as possible in the year and thus the reduction procedure could be applied, when applications had been received. With the review of the rules of the Fund, provision was made, from 1980 onwards, to introduce a system as follows.

The Member States shall submit their applications grouped together by fields of intervention:

— before 21 October each year in the case of operations due to begin in the first half of the succeeding year,

— before 1 April each year in the case of operations due to begin in the second half of the same year, provided that the nature and size of the operations planned are announced before 21 October of the preceding year.

This would allow consideration of applications earlier in the year [1]. To prepare for the introduction of this new system, the consideration of the second series of applications for 1979 was brought forward to the middle of the year, which should allow for notification of the decisions to Member States and claims for advances to be made within the same financial year.

The new facilities for advance payments, as well as the special facility of accelerated payments on account, for operations carried out prior to 1978, was not used as had been hoped, especially by the Member States for whose benefit it had primarily been introduced. The Commission was disappointed by the response of the Member States but the facility of advance payments is being used in 1979 to a much greater extent.

Table 28 shows that, in respect of commitments made in 1978 for operations to be carried out in 1978, five countries received no payments.

Three of these countries had made claims for payment in respect of these commitments but the claims were received too late to be paid before the end of the year. (Indeed it should be added that virtually all duly completed claims received up to mid-December 1978 had been paid by the end of the year.)

In one other country, a payment of an advance was made in respect of 1978 operations arising from commitments made prior to 1978.

As far as the years prior to 1978 are concerned, there was no provision for the payment of advances but even the transitional system of accelerated payments on account and the old system of payment on account was not widely used. In fact, most Member States did not submit their applications with full and final financial records for one financial year until the second half of the following year. This explains to a large extent, the rhythm of payments through the year which is commented upon by the Court in paragraph 4.7.

4.8. The case referred to in the Report did draw attention to the need for a clear definition of the legal term 'public authority'. The case in point referred to commitments made for operations in 1973 and 1974 when the applicant was treated differently in each year under Article 8 of the basic decision. There was also apparently confusion on the part of the Member State concerned on this point. The consequence of the investigation carried out by the Commission was that the applicant was treated as a private body and that an amount considered to have been overpaid was reimbursed to the Commission.

The Commission agrees with the Report that 1978 was a transitional year. Every effort was made to explain to the Member States the new provisions for payment and to encourage the use of the new procedures. It is clear, however, that to change the system as was done in 1978, takes much longer than was anticipated and in fact it may take up to 1980 until the system is fully working.

AID TO DISASTER VICTIMS IN THE COMMUNITY

4.12 to 4.24. The detailed examination by the Court of Auditors of the implementation of Chapter 59 covers the start-up phase of the system of granting aid to disaster victims — a system whose main features should be a clear definition of the aims coupled with flexibility as to the methods used.

On 15 February 1978, therefore, the Commission asked the special interdepartmental working party responsible for devising — on the basis of experience — the requisite management procedures to prepare the decision in question on granting aid. By taking this step, the Commission formalized the consultation procedure already existing in relation to the files concerned.

The procedure is that, at the time of confirming to the public authorities concerned its decision to grant aid, the Commission indicates not only its preferences as to the allocation of the funds, but also stipulates that reports be submitted on the uses to which the Community aid has been put. The Commission fully

[1] Article 5 of Council Regulation (EEC) No 2396/71 of 8 November 1971, amended by Regulation (EEC) No 2893/77 of 20 December 1977.

shares the Court of Auditors' view that the national authorities be required to send in regular reports on the use of the aid. The Commission has made its requirements in this respect more stringent.

As concerns the criteria for granting aid, the Commission considers that what is important is to help the people affected as directly as possible. However, the type of aid it is possible or desirable to give varies from case to case and it is not impossible that occasionally aid to repair infrastructures (roads, river-banks) is the best possible choice in the circumstances. Flexibility in allocating aid must be maintained to ensure that the relatively modest aid in the Community's gift is used to the best effect. This means that the kind of 'Community policy' with strict criteria and specific social aims encountered in the regulations governing other fields of activity, permitting systematic controls to ensure observance of the rules, would hardly be appriopriate. The aid in question is in the first instance a token of the Commission's concern and of Community solidarity. In this connection the Commission considers with the Court of Auditors that it is essential that 'the recipients ... should be able to appreciate the effort made'. This would be ensured even where it was decided to give aid for infrastructures.

Concerning the rapid transfer of funds and the budgetary treatment, accounting for and payment of aids, it is obvious that the methods of local authorities will vary with the structures of each Member State.

This being said, the Commission considers that to ensure transparency as regards the use of Community contributions to help the people affected, the best approach would be to make it clear in good time that a report on the use of the funds must be submitted. At all events the Commission stresses the great importance it attaches to the aid reaching the recipients with the shortest possible delay.

CHAPTER 5 — EUROPEAN REGIONAL DEVELOPMENT FUND

5.1 to 5.12. **Budgetary management in the financial year 1978**

1. The comments of the Court of Auditors concerning the administration of the ERDF in 1978 call for the following general remarks from the Commission.

In 1978, the ERDF was administered in accordance with Regulation (EEC) No 724/75, all the provisions of which were still in force then, apart from the limits to the resources provided for in Article 2 (1) for the period 1975 to 1977 and the distribution of these resources also provided for in Article 2 (1).

As the ERDF continued to operate after 1977, and its resources had been totally committed in the period 1975 to 1977 within the limits provided for in Article 2 (1) of Regulation (EEC) No 724/75, the budgetary authority, i.e. the Council and Parliament, adopted an allocation for 1978.

As regards the distribution of the ERDF's resources, the Commission was no longer obliged to apply the table in Article 2 (1) of Regulation (EEC) No 724/75, since this table applied only for the period 1975 to 1977. However, pending adoption of the new distribution of national shares, the Commission, while setting aside 5 % in anticipation of the creation of a non-quota section, in fact continued to apply the old distribution scale for the quota section, which explains, moreover, why the sum of 43 MEUA in appropriations for commitment was still available at the end of 1978 (see point 2).

Following conciliation between Parliament and the Council, Article 2 (3) (a) of Regulation (EEC) No 214/79 setting out the new distribution of ERDF resources was the subject of the following statement recorded in the Council minutes:

> 'The Council notes that the national quotas referred to in Article 2 (3) (a) can in practice be interpreted flexibly in that the Commission, which is responsible for administering the Fund, can apply each national quota for a three-year period and not necessarily within each financial year, without this preventing the financing of projects submitted by a Member State during a given year up to the amount of its annual quota.'

Article 2 (3) (b) of Regulation (EEC) No 214/79 concerning the resources earmarked for the non-quota section was likewise the subject of a statement recorded in the Council minutes:

> 'In order to increase the flexibility of use of Fund appropriations, it is understood that the rule whereby any unused balance for non-quota projects is to be used for quota projects will not be applied annually, but only for the period 1978 to 1980 as a whole.'

It emerges from these statements that, although the amended ERDF Regulation did not enter into force until February 1979, the legislators intended to enable the new distribution of ERDF resources to be applied flexibly as from the financial year 1978.

Consequently, a comparison (Table 38) of the utilization of appropriations in 1978 on the basis of the old and the new distribution of shares is rather unrealistic.

2. As regards the utilization of the appropriations for commitment in 1978 (point 5.5), it is true that the sum of 43 MEUA was still available out of the 1978 appropriations, but only in anticipation of the approval in 1978 of the creation of the non-quota section and the application of the new distribution of national shares. Even if this amount had been used, the resources available would not have been sufficient to meet the commitments relating to the projects approved by the ERDF Committee in 1978. Part of the commitments had been carried forward to the financial year 1979, which is why commitment decisions totalling 60 MEUA for projects approved in 1978 were taken in January 1979.

3. As regards the delay in payments in 1978 (points 5.9 to 5.11), the Court of Auditors reports as one of the causes the fact that, when cutting the 1978 appropriations for commitment from 750 MEUA to 581 MEUA, the budgetary authority did not make a corresponding cut in the appropriations for payments (525 MEUA) entered in the preliminary draft budget, and the fact that it was impossible in 1978 to make the accelerated payments for which the amended ERDF Regulation provides.

It is undeniable that one of the main causes of the slackening of the pace of payments in 1978 was the delay in adopting the amended Regulation; it should have been adopted at the end of 1977. This delay undoubtedly prompted the Member States to postpone the submission both of applications for ERDF assistance and payment applications, pending possible amendments. As a result, more than half, i.e. 308 MEUA, of the appropriations for commitment available in 1978 was not committed until December 1978, with the result that very few payment applications were made against this batch of aid in 1978.

In addition, the pattern of payments was also affected by the fact that the Member States introduced more new projects, the point being that the first payments on entirely new projects are smaller than those for existing projects, in respect of which the Member States themselves have made substantial payments.

Moreover, in anticipation of the system of accelerated payments, which may amount to 75 % of the amounts committed, allowance was made, when the preliminary draft budget for 1978 was prepared, for the possibility of a faster rate of payments as provided for in the Commission's proposals to the Council for amendments to the ERDF Regulation.

4. The Commission calculates the timetable for payments (point 5.11) on the basis of the experience gained since 1975 concerning the pattern of payments in relation to commitments. Experience shows that, in general, commitments are settled over a five-year period. It should be noted in this respect that the information concerning project-completion times given when applications for assistance from the Fund are submitted is only in the nature of a forecast: it should not be thought surprising if in individual cases, the scheduled times are sometimes in fact overrun, occasionally by a wide margin, perhaps for business-cycle reasons, or as a result of the constraints of the internal budgetary policy of Member States.

5. It should be noted, as regards the comments of the Court of Auditors concerning the accelerated payments procedure (point 5.12) provided for in the amended ERDF Regulation, that, under the rules for the administration of the ERDF, the accelerated payments will in no case exceed the Member State's payments. Moreover, the provisions of Article 9 of the ERDF Regulation concerning inspections are applicable in their entirety, including the possibility of recovering any ERDF assistance paid in error. However, the Commission will take care to ensure that, when the programmes for on-the-spot inspections are drawn up, appropriate arrangements will be made for checking projects for which accelerated payments have been made.

5.13. **Regional development programmes**

6. As regards the Court's comments concerning regional development programmes (point 5.13), reference should be made to the Commission opinion of 23 May 1979 on the subject [1] and the Commission recommendation to the Member States of the same date [2].

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[1] OJ No L 143, 12. 6. 1979, p. 7.
[2] OJ No L 143, 12. 6. 1979, p. 9.

5.14. **Investigation of requests for assistance**

7. The comments of the Court of Auditors concerning the examination of requests for assistance (point 5.14) touch on the preparation of Commission decisions and therefore concern the appropriateness of such decisions. As long as a decision has not been taken, the Commission alone is responsible for assessing matters.

The process of verifying that the applications for assistance satisfy the provisions of Article 7 (2) and (3) of the ERDF Regulation and the internal consultation procedures established for these applications inevitably entail an assessment in the light of the criteria set out in Articles 5 and 6. In addition, projects likely to be presented to the Commission with a view to obtaining ERDF assistance are discussed in detail with the Commission departments in the context of close bilateral contacts, in particular with the Member States which are the main recipients of ERDF assistance. It goes without saying that, during these discussions prior to the submission of applications for ERDF assistance, potential projects are assessed in the light of the conditions set out in Articles 5 and 6 of the ERDF Regulation; as a result of this assessment the Commission departments sometimes reject projects before a formal application for ERDF assistance is made.

5.15 and 5.16. **Audits on the basis of supporting documents**

8. As regards the project-completion timetable (point 5.11), the Court of Auditors should refer to the Commission's comment concerning actual completion times (point 5.11). The Court of Auditors is aware that the Commission departments periodically examine all the projects financed and contact the Member States if work is behind schedule.

In any case, the Commission finds it quite normal and justified, in the case of certain decisions, that ERDF payments are not made on the due dates if completion of the projects concerned is deferred or slowed down, as a result, for instance, of public spending cuts or technical problems.

5.18. to 5.29. **On-the-spot audits**

9. The comments of the Court of Auditors concerning on-the-spot audits call first of all for a general remark from the Commission.

The Commission agrees with the Court of Auditors that the target of checking about 10 % of the projects (point 5.18) will be difficult to meet, taking into account the increase in the number of projects aided and the staff complement of the Directorate-General for Regional Policy. The Commission would emphasize, however, that although the projects to be checked are chosen on a sampling basis, the inspections are as thorough and as complete as possible.

As regards the assessment of the impact of the projects aided by the ERDF on the socio-economic development of the regions concerned, the Commission is continuing its efforts to achieve better results in this area. These efforts will be facilitated by regional development programmes, which constitute a reference framework.

10. As regards particular cases (points 5.20 to 5.29), the following points should be noted.

(a) Project No 75/05/01/003 (point 5.20): the Commission has approached the Italian authorities several times. It appears that the Italian authorities are still looking into the matter. Once the Commission has been informed of their findings, it will be able to consider them and come to a conclusion with regard to the ERDF contribution to the project.

(b) Project No 76/05/03/007 (point 5.21): the fact that the final cost is well in excess of the total cost estimated at the time of the application is due partly to inflation and partly to a change in the legal basis for the compulsory purchase system. Reference should be made to the Commission's comment concerning actual completion times of projects (point 5.11).

(c) Project No 77/02/04/002—004 (point 5.23): it was in fact during the on-the-spot audit that the Commission discovered that the amount indicated as expenditure by the public authority in the completion report drawn up by the Member State (on the basis of which final ERDF payment was made) was higher than the actual figure. The ERDF aid in error has since been recovered.

(d) Project No 77/02/04/002—008 (point 5.24): the exact state of affairs was ascertained during the same on-the-spot audit. The Member State's completion report, on the basis of which ERDF payment was made, indicated that the expenditure in question had been incurred after 1 January 1975.

The ERDF aid paid in error has since been recovered.

Under the ERDF Regulation, payments are made on the basis only of declarations or certificates from the Member States: the purpose of the on-the-spot inspections is to check the supporting documents and establish that the structures for which payment is made have actually been built. After the on-the-spot checks have been made the Member States are asked to make any improvements needed. The question of the accuracy of the information provided by the Member States in the completion reports was raised at the Fund Committee meeting on 12 July 1979.

(e) The comments concerning projects concerned with industry and tourism in the north of England (point 5.26) concern the appropriateness of decisions taken by the Commission. It should be noted, however, that it may be the case that regional development is furthered by the establishment of diversified firms, even if each individual firm is small. The Commission will continue to encourage the development of small firms in the light of the regional development programmes. Under the third subparagraph of Article 4 (1) (a) of the amended ERDF Regulation, the Commission can even treat as a single investment a group of small investments in the field of handicrafts or tourism which are related geographically, provided that at least 10 new jobs are created or 10 existing jobs are maintained as a result of the group of investments.

(f) Industrial Project No 75/03/02/007—002 (point 5.28) was indeed carried out jointly by two companies, one a private real estate company and the other an industrial company. The object of the programme carried out by the two companies was a single capital project to which each company contributed according to its function. It was therefore justified to take the national subsidies for the entire investment as the basis for calculating Community aid, and not the subsidy for one of the companies contributing towards the investment.

(g) In the context of bilateral relations with France concerning inspections of industrial projects (point 5.29), in December 1978 the French authorities agreed that, for forthcoming Community audits in a first stage the competent French departments would visit the industrial companies and, in the course of the visit, inform the Commission representatives and, in the second stage, the French officials would be accompanied by Commission officials. The first stage of this procedure was put into practice during the inspection visit in Brittany on 14 to 18 May 1979.

CHAPTER 6 — ENERGY RESEARCH AND INVESTMENT POLICY

Budget transparency

6.4. The specific nature of the Community measures (development of a particular technology to industrial exploitation, Community research carried out by the Community itself at the Joint Research Centre and Community research carried out in national laboratories with the financial help of the Community) requires certain distinctions to be made in the presentation of the budget appropriations concerned. These distinctions are that:

(i) appropriations intended for Community energy policies such as demonstration projects should be entered in Chapter 32, and

(ii) appropriations intended for research itself, whether carried out by a Community institution or not, should be grouped in Chapter 33.

However, the Commission will examine ways of making the connection between various measures in the same field more apparent in the presentation of the budget.

6.5. The present situation is that Council Decisions relating to a research programme lay down the implementing conditions for that programme in respect not only of appropriations but also of personnel. The allocation to research objectives of personnel expenditure which is linked to the execution of the research programme is therefore as a result of the Council Decisions. This is not the case, however, with demonstration projects, where the legal basis is a Council Regulation.

Evaluation of research programmes

6.6. The Commission will review the possibility of providing the Advisory Committees associated with the management of these programmes with more information of a financial nature. However, the Commission must emphasize that, in its view, the primary role of these Committees is to give the Commission scientific and technical advice and to avoid duplication of effort by coordinating national programmes more closely. The responsibility for carrying out the research programmes must rest entirely with the Commission.

Similarly, the programme progress reports should conserve their scientific/technical character. This does not exclude the possibility of providing the Advisory Committees on the management of programmes with financial information of a summarized and transparent nature.

Further measures are currently being studied with a view to strengthening the internal means of controlling research.

As far as cost-benefit criteria are concerned, the Commission will pursue its efforts in close contact with the Member States.

EXPENDITURE UNDER THE ENERGY POLICY

6.12. **Item 3200**

To improve the situation in future, the Commission has set at 30 November 1979 the deadline for the submission of support applications for the financial year 1980. This will enable the Council to adopt its decision in good time so that the support contracts can be signed before the closure of accounts for the budgetary year in question.

Nevertheless, in drawing up its requests for budgetary appropriations, the Commission will continue to do its utmost, in the light of experience, to make adequate allowance for the time necessary to negotiate contracts.

Article 321

The weak utilization rate of the appropriations for payment is explained by financial provisions provided for in the contracts: an initial advance deposit takes place upon the signing of the contract; for future payments, the Commission is dependent upon the transmission of the works-in-progress report by the contractor. The procedure used to select the projects requires approximately five months (approximately three months for tender so that the companies may prepare their petitions, and two months for the technical examination by the Commission departments and by a group of geological experts, and for the decision of the Commission).

6.14. As experience is gained, the Commission services have been able, year by year, to shorten the time required for negotiating contracts. For the managers of the projects, agreed by the Council, the Commission sets relatively short deadlines to present their operating programmes.

These deadlines are met by most recipients. However, the Commission is aware that it is not always possible to observe strict deadlines, and that an inflexible rule would prevent a certain number of complex contracts of advantage to Community energy policy from being concluded.

However, the Commission will examine with the greatest care the possibilities to accelerate the procedure.

RESEARCH AND INVESTMENT (JOINT RESEARCH CENTRE — JRC)

Budgetary control — 1978 budget

6.18. The Commission is able to accept the general tenor of the comments about more systematic entry in the annual budget of all revenue and expenditure relating to work for outside bodies. Although, with regard to the making available of amounts which result from extra revenue accruing from outside bodies, the Financial Regulation authorizes expenditure not contained in the budget to be increased, the Commission will see that the budgetary forecasts correspond as closely as possible to the real situation, if that can in fact be foreseen.

Revenue and expenditure account

6.19. Contracts concerning outside bodies are concluded and payments made during the financial year. If the Commission, with regard to the commitments entered into under the Blow-down contract, had taken into account only that part which corresponds to the present financial year, the revenue and expenditure account would not fully reflect the legal and financial obligations of the JRC.

This practice is consistent with the Financial Regulation (Article 90 (4))which makes exception for extra revenue accruing from outside bodies from the standard procedure, since such revenue does not arise from the Community's own resources.

Management control: charges for work for outside bodies

6.20. The Commission is aware of certain gaps concerning, in particular, the rules for charging for work for outside bodies and will try to remedy this situation.

Estimates of the cost of work for outside bodies

6.21. Even if it is not always apparent from the financial record sheet that a detailed estimate of the cost of a contract has been made, such an estimate is always carried out in every case.

Where the most important contracts, such as Essor or Blow-down, are concerned, the files contain a detailed estimate of each element of the costs for the work.

The services provided by the support departments (e.g., workshop, Computer Centre) are expressed in units of work, the cost of which is calculated on the basis of the total cost of the department divided by the number of units of work which it is capable of providing.

The Commission realizes, however, that contracts relating to the provision of scientific services — even though individually they may be insignificant — should, in principle, contain more details with regard to the real cost of the services, so that the real cost and the charge to the contracting party may be compared and controlled more fully. The Commission will look into the feasibility of introducing such a system.

Inventories

6.27 to 6.29 The inventory of movable property, and the checking of that inventory, are not yet entirely satisfactory. The shortage of staff, the large number of articles in the inventory and the multitude of items to be entered each financial year have made it impossible for the JRC establishments to carry out inventory checks as it would have desired.

Certain JRC establishments have already started, and will continue, their review and disposal of redundant property, as suggested by the Court of Auditors, in order to remedy the situation which the Court has criticized.

As suggested by the Court, the Commission will study the possibility of raising the thresholds laid down in the Regulations at which items must be entered in the inventory and the introduction of a system of criteria governing the physical checks on movable property of a scientific or technical nature.

Stock accounts

6.30 to 6.32. A stock valuation accounting procedure already exists at Karlsruhe, and similar procedures are being introduced at Geel and Petten.

In view of the large number of spezialized stores called for by the varied activities at Ispra, the problem with this establishment is more complicated. This kind of accounting procedure requires the services of a considerable number of officials or the introduction of costly automated systems. The Commission will therefore study the problem and the possibility of achieving harmonization of the stock-taking rules and will notify the Court of the results.

Accounting for inventory and stock assets

6.33. With regard to recording the values of immovable assets and stocks in the balance sheet, the Commission would refer to the reply it gave to the comments in paragraph 8 of Chapter 11 of the Court of Auditors' report.

The Essor complex; the SARA circuit

6.36 to 6.39. The difficulties arising in the preparation of contractual provisions between the Community and the Italian Government concerning the Essor complex and, more particularly, the construction of the SARA circuit have regrettably caused the construction of the circuit to be stopped. As no Community programme for building and using the circuit materialized, the Commission was obliged to suspend the building contract for such time as the Italian Government's financial contribution was not guaranteed.

As it has always done, the Commission will continue to make every effort to see that the Essor reactor, which is an important Community asset, is used as profitably as possible.

The Commission can only welcome the Court of Auditors' support for a rapid decision to be taken by the Council on the proposals already put forward by the Commission on this matter.

RESEARCH AND INVESTMENT (INDIRECT ACTION)

6.40. There are various reasons why the rate of utilization of certain appropriations has slowed down. These are:

(a) late adoption by the Council of certain programme proposals;

(b) such delay is increased by the lengthy recruitment procedure concerning scientific staff foreseen in the programme decisions and the time required to set up the Advisory Committees on Programme Management (ACPMs);

(c) moreover, the procedure for transferring appropriations from Chapter 100 to the relevant budgetary heading has proved particularly long;

(d) a further obstacle has been the difficulty of making the necessary choices and negotiating the contracts.

6.44. The Commission would emphasize that it only has a very small staff to carry out the tasks mentioned by the Court.

6.46. With regard to the absence in certain cases of the original vouchers, the Commission would emphasize that the large majority of contracting parties are public or parastate bodies. These are obliged, under national statutory and fiscal provisions, to keep the original vouchers at the disposal of their authorities. This is why the Commission requires these bodies to produce declarations of conformity with the said vouchers.

The Commission also carries out on-the-spot sample checks of the declarations.

6.48 and 6.49. The Commission's reply to the Court's comments in these paragraphs is set out in detail in points 6.50, 6.51 and 6.52 below.

6.50. The selection of the rate of participation is a general policy consideration which varies according to the interest of the research for the Community and the contracting party. More specific rules could only hinder the sound execution of the research programmes. A certain amount of flexibility, therefore, is necessary in the field of research.

Nevertheless, the Commission is prepared to study criteria upon which more specific rules could be based, provided they did not interfere with the sound execution of its research programmes.

6.51. The Commission's practice of adapting its methods to the accounting system of each contracting party is based on the following reasoning:

(i) contracts are governed by national law. The Commission has to observe the legal provisions which impose certain accounting rules, and these vary from country to country;

(ii) cost-sharing research contracts are contracts of association, and it is unthinkable that one partner should be able to impose his own wishes on the other. It is impossible in this field to impose rigid clauses on the contracting party in view of the fact that the costs are shared and that the nature of the contract, i.e. research, is an uncertain undertaking;

(iii) on a practical level, it would be wrong to expect a contracting party to change his accounting procedure when the yield from contracts is only a small percentage of his turnover. Furthermore, every well-organized firm has a list of charges for services performed for outside bodies;

(iv) if the contract is not suited to the contracting party's accounting system, verification will prove still more difficult. The Commission discovered this to its cost at the start of the Energy Programme when it tried to impose a standard form of contract; this proved unsuited to the administrative and financial structures of the other parties and several management problems arose as a result.

6.52. A further justification for advances is that the other parties do not have to arrange prior finance for the research. As a general rule, the Commission takes into account the size of the Community contribution and the length of the repayment periods.

Nevertheless, as expenditure cannot occur at a steady rate, particularly when the research requires a large initial investment, the Commission must show, when circumstances so dictate, a certain degree of flexibility in granting advances and determining their amount on a case-by-case basis. However, the Commission will examine the possibility of preparing more specific rules on this matter.

6.53. With regard to the absence of essential supporting documents, the Commission would refer to its answer to point 6.46.

As for the conditions in which the inspection is carried out, the Commission would repeat that it has to perform the task referred to by the Court with a very small staff. For practical reasons of administrative economy the Commission is constrained to use fact-finding means, as regards the guarantee that the payments made actually represent the contractual share of the research costs, other than those based on the systematic inspection of all the supporting documents relating to contractual expenditure. The declarations that the statements supplied by the contracting parties conform with the supporting documents greatly reduce the workload of the departments concerned.

The Court of Auditors' reservations about the nature of the inspection appear to be unfounded: the statements of account must, in fact, be certified by the contracting party as true and accurate and consistent with his accounts. There is therefore a formal commitment by the contracting party which is a contractual obligation. The contract, of course, does not prevent the Commission from exercising its option to verify the expenditure concerned on the spot. Thus, certain supporting documents are inspected by the Commission in respect of items which may become controversial.

As the number of contracts to be concluded and administered seems likely to increase, the Commission is currently considering a whole series of changes designed to make the contractual arrangements more effective but — as the Court would wish — still limiting the resulting increase of administrative work and ensuring that the principles of sound financial management are observed.

6.54. In view of the size of the contract service staff at present, it would not be realistic to set an overall inspection plan which could not be achieved in practice. As soon as the administrative infrastructure is adequate, an overall plan could again be introduced, as was the case in the past.

As regards the absence of an audit programme and notes giving guidance on the preparation of reports, the Commission would point out that since 1970 it has been using a detailed questionnaire for the verification of expenditure.

6.55. It is fair to say that the Commission does not have the resources which would enable it to check a large enough number of contracts on the spot.

At present, inspection is concentrated on those contracting parties whose accounting procedure seems questionable to the Commission.

6.56. The Commission's reply to point 6.50 applies here too.

6.57 and 6.59. The weaknesses of internal control should be attributed to a shortage of staff rather than the application, at the conclusion of the contracts, of the principle of Community participation in the actual cost. It is difficult to see why lump sums should be granted for research whose results are necessarily uncertain, without ensuring that the funds made available to the contracting party have in fact been spent on the stated purpose of the research.

As regards the suggestion that procedures should be altered so as to improve internal control without a corresponding increase in the workload, the Commission has engaged an outside firm to carry out a study on reorganizing the administrative departments of DG XII and, in particular, the internal and external control procedures on the basis of objective criteria and in accordance with actual requirements. The Commission would also point out that its departments — in the work currently being undertaken with a view to devising a training programme for Community inspectors — will take account of the Court of Auditors' suggestions for making internal control more effective in this field.

6.58. The Commission's reply to point 6.52 applies here too.

CHAPTER 7 — COOPERATION WITH DEVELOPING COUNTRIES AND OTHER NON-MEMBER STATES

7.4. The Commission is of the opinion that considerable improvement in the management of food aid took place in 1978 particularly in catching up on backlogs and in more active supervision of the use of the aid delivered.

The Commission recognizes that there is need for improvement and is taking the following steps to ensure more efficient implementation:

— proposal for new management procedures (COM(79) 1 final),

— revision of the regulations for the mobilization of products,

— modification of the rules for transporting food aid,

— introduction of more direct quality control.

Improvements will of necessity be gradual because the Commission must continue to give priority to the execution of the annual programme and the aid already granted.

7.5 to 7.8. The complexity of the management of food aid, which depends on both the Community's development policy and the supply of products within the framework of the Community's agricultural policy, will inevitably closely involve both the Directorate-General for Agriculture and the Directorate-General for Development regardless of the division of responsibilities.

The present system has the advantage of using the existing mechanisms in the Community and Member States for the supply and financing of agricultural products as part of food aid.

The Commission nevertheless takes note of the Court's comments.

7.11. The situation seems to have become easier to assess since the introduction of the procedure whereby commitments are made in annual programmes. Advances are paid to the intervention agencies in the Member States on the basis of their monthly estimates, after verification and approval by the Commission. The payments for 1978 used up 91 % of the sums advanced; however, in the light of the comments of the Court of Auditors, the Commission is examining how the details of advances made could also be shown in the commitment and payment statements.

7.12 to 7.13. The 1979 budget gave more precise estimates for expenditure on previous years' programmes in order to bring more clarity into the presentation of accounts and to respect the budgetary provisions.

7.14. It is correct that delays in deliveries of food aid will have repercussions on financial management. The Commission has decided to tackle this problem by reducing delays and by introducing a separate budgetary line to deal with actions which are not executed within the normal time limits for payments. This appears for the first time in the 1979 budget.

The Commission notes the remarks of the Court of Auditors on differentiated appropriations, and will review this question in the light of its experience with the new budgetary line.

7.15. The Commission is aware of the delays in the final clearance of accounts, and is endeavouring to step up the on-the-spot inspections in order to speed up the clearance operations in question.

7.16. For all the additional expenditure borne by the Community and for which recipient countries or organizations are held to be responsible revenue orders have been issued. Many of these are for demurrage charges and the present work on improving the mobilization Regulations will aim at eliminating some of these difficulties.

7.17. The review of the dairy products mobilization Regulation should deal with this problem.

7.18 to 7.19. The Commission welcomes the Court's support for its proposal to regroup food-aid expenditure under one budgetary title. It regrets that the Council has not yet adopted its proposal.

7.20. The 1978 programmes were presented by the Commission at the earliest possible moment i.e. in October of the previous year; the mobilization and transport of aid is a function of the state of the product markets and of the local situation e.g. climate, geography, period of harvest as well as of the efficiency of execution.

7.21. Although the cereals food year is from 1 July to 30 June the Community's financial year is from January to December.

The Community has decided to place the cereals food year budget in the financial year corresponding to the January to June period of the food aid year.

The difficulties encountered in receiving a Council decision before the beginning of the financial year are the subject of the Commission's proposal of January 1979.

Despite the difficulties encountered in previous years the Commission effectively reduced the delays in execution in 1978 and either delivered or arranged for the delivery of aid allocated in previous years before the end of December 1978.

7.22 to 7.25. The Commission agrees in general with the Court's comments. The lack of information — particularly on transport arrangements — leaves the Commission and the recipient countries open to abuse.

7.26 to 7.28. In respect of transport in general the Commission has begun discussions to prepare a framework Regulation for the transport of food aid. Unforeseeable events like shipwreck and fires on ships are beyond the Commission's control and it is possible to observe that in comparison with the total tonnage of products shipped these accidents are rare and fall within the normal statistics for marine risk.

On the other hand even if these accidents have no financial consequences for the Community the prejudicial effects on recipient countries are obvious and unacceptable. A more strict control of the Community over transport operations is necessary.

7.29. The boat was rerouted to another port to avoid blockages in the ports where it was originally destined. This rerouting was accepted in order to avoid unnecessary delay in delivery and demurrage charges.

7.30 to 7.32. Vietnam is not the only country which receives aid delivered by ships flying third-country flags.

At present the choice of shipping for deliveries cif, which are subject to an inclusive tender, is the responsibility of the tenderer. The selection of the successful tender is made by the intervention agency. The Commission is aware that, in general, it is unsatisfactory that an important element both of expenditure and of managerial responsibility is beyond its control (see paragraphs 7.23 to 7.25).

Outside the dock area the question of identification of aid is rarely related to the nationality of the shipowner. The mobilization Regulations provide for all Community aid to be clearly marked on the outside of the packages both as to its origin and proposed use. On the other hand the final consumer may never see the original package and bulk deliveries carry no marks of origin. The population can only be made aware by giving greater publicity to the arrival of the aid. Some authorities and journalists have cooperated with initiatives to organize such publicity. Some have not.

7.33. As the Court notes in 1978 the Commission reorganized the Food-Aid Division specifically to improve the control of implementation of food aid. In addition to more direct involvement with delegates in the ACP States (which are not the principal recipients) and a review of past actions the new structure provides for a service to check reports of misuse of aid or specific difficulties drawn to the attention of the Commission. This service has undertaken several missions to check reports of misuse and to examine problems which lead to additional expenses for the Community.

7.35 to 7.37. One such mission to Ghana in October 1978 investigated the problems outlined by the Court. As a result of that mission it is possible to state that the Ghanaian authorities encountered many difficulties in setting up an emergency administration and allocating resources to it under the pressures of the emergency.

A further allocation from the counterpart funds shall be made to the National Rabbit Project and the delegation has established a regular accounting system to monitor payments from the counterpart fund account.

7.38 and 7.39. Despite enquiries from the delegate and the Commission a satisfactory explanation to these allegations has not yet been given. However, the difficulties of delivering food aid to Zaire has effectively been recognized by the Commission in the 1979 programme in so far as all dairy products will be channelled through organizations which have a local administration which can supervise delivery, and a similar arrangement will apply for cereals in the future if there is no improvement during 1979.

7.41 and 7.42. The difficulty of receiving information is aggravated in non-associated States by the lack of a regular representative of the Commission. There is thus a more limited possibility of undertaking a reliable audit from headquarters because of the lack of local knowledge and prior information on which to prepare an enquiry.

It must be underlined that the staffing of the Food-Aid Division is not designed to undertake regular missions in all recipient countries.

7.47. The difficulties encountered in receiving explanations from the authorities resulted in the withdrawal of all aid undelivered at 31 December 1978 and its exclusion from the 1979 programme.

7.51. This is a consequence of transport being the responsibility of the successful tenderer and beyond the control of the Commission. Information on the expected time of arrival of goods shipped from Europe is an exception rather than the rule and the Commission supports the Court's criticisms of the lack of information from intervention agencies in this regard.

7.52. The delay in delivery was due to a disruption of the railway from the port to destination caused by flooding.

The overestimation in 1976 was compensated by zero allocations in subsequent years, and this explains to some extent the long delay in delivery. A control visit of the Commission has studied the problem and has indicated that, for the future, dairy product aid to this country should strictly follow the guidelines laid down for the 1979 programme in dairy products; e.g. milk powder for free distribution should be handled by an organization having local distribution facilities (e.g. a NGO) and direct aid should be allocated to the dairy industry for reconstitution and processing.

It is well to note that the difficulties in administration noted in 7.49 and 7.50 also applied in large part to the evaluation and delivery of the 1976 allocation in skimmed-milk powder.

7.53. While it is true to say that many recipient countries do not observe to the letter the conditions agreed before delivery of the aid it is impractical to expect more of the public administration of a recipient country than it can reasonably supply. The role of the Commission, including delegates in ACP countries, is therefore of great importance in helping authorities overcome such difficulties and in ensuring that the conditions are met as far as is possible.

7.54. The Commission notes the Court's request to make reference in the general conditions to the Court's responsibilities for control. As mentioned above (paragraph 7.33) the Commission is strengthening its supervision and control procedures. Since 1977 the general conditions for giving aid include the following provision: 'The country of destination shall give every facility to any person nominated by the Community for the purpose of ensuring that the aid has been properly delivered and used'. This clause was introduced to cover the requirement of Article 82 of the Financial Regulation.

7.57. During the meeting of 22 December 1978 the Commission concluded and signed 27 Financing Agreements for a total amount of 38 790 000 EUA. In view of the fact that the number of participants in this meeting, signatory States of these Financing Agreements, was larger than initially foreseen, and due to the proximity of the annual balance sheet for 1978, the Commission was only able to issue a commitment for a total amount of 29 720 000 EUA.

Concerning the slowness with which the projects seemed to be executed the attention of the Court of Auditors may be drawn to the fact that nearly all projects are agricultural projects which need a longer period of execution.

With regard to projects co-financed with other international institutions (i.e. World Bank, Asian Development Bank) the financial execution of these projects depends on the rate at which the borrower presents his payment requests to the donor.

The Commission does not have the possibility, as it has in the ACP States, to monitor the technical and financial implementation of these projects by a delegation established in these countries, apart from in Thailand where the 1979 project (winged bean crop development project) has started and 20 % of the commitment has just been paid.

7.66. For some periods during the years 1972 to 1975 UNRWA found that the cost of the supplementary food-aid programme was less than forecast, largely because of the enforced reductions in the programme as a result of the events in Lebanon and elsewhere. The Commission was faced with the choice of either demanding that a sum representing the underspending should be refunded by UNRWA, or proposing to the Council that UNRWA should be permitted to retain this sum and thus reduce its chronic overall deficit. It decided on the latter course, which was accepted by the Council.

7.67. The question raised by the Court in these paragraphs have a more general import than the possibility to control adequately the Community contribution to UNRWA. The Commission would accept that the question of the kind of financial control, both as to objectives and limits, which can be exercised in relation to other international organizations, in particular UN organizations, should be examined more closely.

In so far as UNRWA is concerned it is worth noting that through much of the period covered the conditions of insecurity and civil war in which UNRWA had to work made detailed control difficult. For the immediate future the Commission will pursue the question of improved control, reporting and accountability with UNRWA in cooperation with the Court of Auditors.

7.68. The Convention concluded with UNRWA in 1975 did not contain the control clause mentioned

above (paragraph 7.54) since it was not introduced until 1977. The Commission will propose that such a clause should be included in all future Agreements.

7.70. As noted above (paragraph 7.67 the Commission will work towards improving the control of the utilization of Community aid granted to UNRWA.

7.71 to 7.72. The Commission agrees that there is a need to establish a more rational attitude with regard to the audit of Community subsidies to international organizations.

CHAPTER 8 — STAFF EXPENDITURE

8.7 to 8.9. The Court of Auditors' suggestion would be difficult to implement. Any request for a revision of the rates must always be preceded by an increasingly detailed survey of hotel and restaurant prices in different countries. If the conclusions of this survey are subsequently confirmed by the fixing of new rates by Council decision but take effect too long after the survey had been carried out, they may be superseded by price increases occurring in the meantime. It would be unfair to make staff on mission suffer from the consequences of this situation. Furthermore, the Commission has to comply with the priorities adopted by the Council in its decisions on the Commission's proposals.

8.10 to 8.13. Point VI of the general implementing provisions relating to Articles 11, 12 and 13 of Annex VII to the Staff Regulations states: 'on returning from his mission, the official shall submit to the appropriate departments his calculation of his travel expenses . . .'.

These are inter-institutional rules.

Article 65 of the Financial Regulation of 21 December 1977 lays down that advances 'shall be settled as a general rule within six weeks following completion of the project for which they were granted'. This deadline thus applies to missions for which advances have been made on mission expenses and travel tickets (i.e. advances in kind) have been issued.

An official who has failed to submit his statement of travel expenses normally receives a reminder within about six weeks of his return from mission. If he does not do so after a further two weeks, the total amount to be deducted from his salary is determined (amount of the advance and cost of the travel ticket issued by the approved travel agency). The administration also issues regular reminders to officials in the administrative notices to submit their statements of mission expenses, with the threat that it will recover the advance and the cost of tickets if a final deadline is not met.

After these reminders have been issued, use is made of the possibility of deducting advances in cash and in kind from the salaries of officials sent on mission.

The growing number of missions (25 647 in 1978 compared with 16 332 in 1972) which have, however, to be processed by the same number of officials has led to an enormous increase in paperwork (e.g. typing of vouchers, manual recovery of advances, etc.), which could be alleviated if these repetitive and tedious operations were computerized.

8.27, 8.28 and 8.30. The interdepartmental coordination of missions is a constant concern of the Commission.

The interdepartmental working party on missions set up in 1976 had to suspend work pending the computerizing of the administration of mission expenses.

The Commission will shortly be adopting measures on consultation between DGs (or departments) and the DGs with responsibility, for reasons of geography (DGs I and VIII) for missions in non-European countries.

8.29 and 8.31. The delay in the computerizing of mission expenses is mainly due to two factors. Firstly, the software development has proved more difficult and complicated than initially expected and the firm retained has had to modify the programme several times without, as yet, wholely satisfactory results. Secondly, the program was designed for an IBM computer; but this computer will be withdrawn from the Commission's Computer Centre next year and replaced by an ICL computer. It has therefore been agreed that the present program will first be adapted for the ICL computer for testing by the user, to avoid having to convert an already operational program when it enters service, as this would seriously disrupt the user's work.

8.32. It is true that appropriations were exceeded, owing to an administrative error (no transfer) which meant that there were not sufficient appropriations under Item 1300, although the amount needed to cover the deficiency was available under Item 1301.

8.33 and 8.34. Allowance rates were adjusted not only for missions to Switzerland but also for missions to all other non-Community countries. In addition to this simple adjustment of allowances, a ceiling was set, for the first time, for hotel expenses for missions outside Europe. It was the introduction of this principle of a ceiling for hotel expenses and its fixing — sometimes on a country-by-country basis — which necessitated lengthy discussions within the Commission between the DGs and departments concerned, between the institutions and with staff representatives.

On 12 July 1979, the Staff Regulations Committee unanimously delivered a favourable opinion on the proposal, and formal approval of the new rates by the institutions should now be only a matter of weeks.

Advances on mission expenses in Switzerland were calculated — for obvious reasons of fairness — according to the new proposed allowance rates and ceilings.

8.37 and 8.38. The Court of Auditors' comments given below call for the following replies:

(a) 'The number of flying hours, essential for the calculation of the amount charged, cannot be checked since none of the certificates of departure and arrival signed by the passengers are included with the supporting documents.'

Reply: Article 8 of the contract with the firm stipulates flat-rate tariffs for all regular destinations. Flying hours for other special flights are calculated from the flight documents, which are taken as proof, and it is hence contractually forbidden to ask a member of the Commission to time the duration of the flight. The Commission will, nevertheless, again discuss, with the firm, methods of checking flying hours.

(b) 'The individual amounts billed are not analyzed, so that it is impossible to establish which price index and which fuel costs have in fact been used in the calculations.'

Reply: It is true that the detailed calculation of the hourly rate billed is not given in each invoice. The Commission could, however, in future forward to the Court of Auditors every month the detailed breakdown of the hourly rate indexed on the basis of the consumer price index and the price of fuel at Zaventem airport.

(c) The firm will be asked to give on the invoice the number of flying hours already completed in the current year.

8.42 to 8.44. The decision taken by the heads of administration in June 1975 was based on careful study of legislation on international organizations. The heads of administration will, however, be informed of the Court of Auditors' comments, so that the institutions can jointly examine the exact interpretation of the term 'international organization' in Article 4 of Annex VII to the Staff Regulations since the text itself does not specify 'international organization governed by public law'.

8.45 and 8.46. The irregular situations fall into two categories:

1. experts who have been retained beyond the maximum period;

2. experts who are not seconded from a national body.

The last remaining cases were regularized in the first half of 1979 (by establishment or departure from the Commission).

8.51. The Commission wishes to point out that it carries out regular surveys on the use of staff, and staff efficiency.

8.52 and 8.53. The suggestion that there should be inter-institutional consultation in an area where the problems are broadly similar yet at the same time exhibit features specific and peculiar to each institution would seem feasible.

The Commission is prepared to seek a viable solution, in conjunction with the other institutions.

8.54 to 8.56. The Commission accepts the Court of Auditors' suggestions and will study their implications.

The comment made in point 8.56 seems to the Commission to be paramount. It is only within an inter-institutional framework that valid solutions can be found, since the problems raised affect all the institutions.

8.58 to 8.61. (a) With regard to the review of cash balances, the Commission admits that a sum of Bfrs 38 000 was missing; this sum had been passed on from one official to another and from one Directorate-General to another, and the actual date on which the sum 'disappeared' could not be determined. Areas of responsibility have now been defined (they are in fact implicit in the rules). Be that as it may, on every occasion when the use of these floats gives rise to an

expense chargeable to the trading account, this expense must be justified according to its category and must be covered by appropriate vouchers.

(b) The Commission is required to pay social security contributions to the Belgian State on a quarterly basis. Contributions for the last quarter cannot be worked out by the Commission until January, when the number of local staff employed during the period in question is known. The Commission does not claim back the amount from the staff shop until it has paid it over to the Belgian State, towards the end of January. Consequently, the sum cannot be reimbursed before February.

(c) The problem regarding the 'debtors' item is that the restaurant complex is required to provide a service and obey commercial management principles within a body governed by complex financial and administrative rules. Bearing in mind this duality, the Commission has not only launched a major collection operation and recovered over 95 % of previous debts, but has also gradually introduced a system to obviate the drawbacks of such a situation.

The Commission is also studying the possibility of ensuring that the restaurants' bills are met by means of a form constituting an administrative and budgetary commitment binding upon the 'customers'; this term includes not only individual officials and the Commission and members of the Commission when they give official receptions or dinners, but also the directorates-general giving luncheons and cocktails.

These measures should help ensure faster recovery of the debts to the restaurant complex.

(d) It is not quite correct to compare the 'debtors' item with that of 'restaurant à la carte, receptions, meetings' alone, since a large proportion of this item is made up of services rendered to the Directorate-General for Information or the former Spokesman's Group which used the self-service restaurant as a logistic support for visits, groups or symposia concerned with promoting the European idea and knowledge of the institutions.

The Commission will endeavour, as stated above, to speed up the payment of bills.

CHAPTER 9 — OPERATING EXPENDITURE

9.9 and 9.10. Payments charged to the appropriations of 1978 for the supply of goods or services for which the order was placed in 1977:

The majority of transactions relate to expenditure in respect of which the Commission has not made individual commitments — as laid down in Article 32 (1) of the Financial Regulation — but rather 'provisional' commitments. This procedure was introduced as a rationalization measure; it covers small amounts of compulsory and repetitive current operating expenditure. Provisional commitments are made under Chapters 21, 22, 23 and 27 at the beginning of each quarter or half year to meet current expenditure in cases where specific amounts rarely exceed Bfrs 10 000. On 15 December the provisional commitments are amended with a view to determining the appropriations to be carried over. When establishing the amount of appropriations to be carried over (automatic carryovers), account can be taken only of the orders prior to that date where the amounts are definitively known; this is not the case, for example, with expenditure on maintenance and repairs — charged to Items 2203, 2213, 2223 and 2233 — which has not been invoiced before 15 December. The aim is to limit the appropriations carried over to the requisite amount and thus avoid subsequent cancellation of carryovers.

Claims submitted to the authorizing officer after 31 December which have not been taken into account when establishing the appropriations to be carried over are charged to the appropriations for the following financial year.

A number of invoices dated before 15 December have been charged to the appropriations for the following financial year for the reasons set out below:

(i) the appropriations carried over from the financial year were inadequate, e.g. unforeseeable increase in the prices invoiced over and above the amount shown on the order form in respect of which commitments were made in the financial year of origin and where the said amount was carried forward; in such cases, the use of appropriations from the current financial year is allowed under the last part-sentence of the third subparagraph of Article 5 of the Financial Regulation;

(ii) disputes between the institution and suppliers making it impossible to assess in good time the amount actually due when the preliminary commitment is made;

(iii) acceptance procedure in respect of certain supplies and verification of invoices which have not been completed before 31 December.

Entering into commitments without prior authorization from financial control:

The cases referred to by the Court of Auditors relate to current expenditure where single amounts rarely exceed the sum of Bfrs 10 000 and in respect of which provisional commitments had been entered into earlier with due approval by the financial controller. The authorizing officer was therefore able to undertake commitments giving rise to current expenditure. Furthermore, each resultant payment order had been sent for approval to the financial controller prior to the payment being made.

The Commission appreciates the understanding shown by the Court of Auditors regarding the difficulties arising from year-end transactions; it is prepared to examine with the Court the possibilities for practical and acceptable solutions.

9.16. Directorates-General and departments are regularly reminded of the rule concerning prior authorization. The Commission is continually striving to ensure that its departments fully comply with these rules.

9.17. Entertainment and representation costs are mostly charged to Article 240. Nevertheless, there may be a certain similarity with expenditure on information activities arising from visits organized under Commission programmes, and which particularly involve the payment of expenses on hotels, meals, travelling etc. In view of their specific nature, the Commission has charged such expenses to Item 2720. Moreover, the expenditure in question is subject — in accordance with the internal rules on the implementation of the general budget — to the same rules as entertainment and representation expenses charged to Article 240.

The Commission departments responsible have taken the requisite steps to ensure stricter compliance with the prior authorization procedure.

9.24. The Commission would point out that, following the special investigation mentioned by the Court of Auditors, the Commission has altered the rules defining the various activities covered by representation expenses and their charging to Items 1003 and 2400.

9.27. It is obligatory, in respect of transactions carried out by the press and information offices, to seek competitive prices by issuing invitations to tender in accordance with the provisions of the Financial Regulation. Transactions of the type which warrant recourse to private treaty are the exception provided for in the Financial Regulation and confined to properly justified cases involving very small amounts.

9.28. For some time consideration has been given — and is still being given — to the framing of a uniform policy regarding the sale of monthly magazines, the aim of which is not to make any financial profit. Hitherto, however, such a profit has not been considered desirable on account of the differing circumstances from one country to another regarding:

— local practices,

— the degree of market penetration of each monthly magazine into the desired social strata, and

— above all the degree of interest shown in the Community by the citizens of each country.

9.29. The comments made by the Court of Auditors on the grants made in respect of specific information events organized by outside organizations have received the Commission's fullest attention. These comments tie in with the concern voiced within the Commission. The possibility is currently being examined of drawing up practical rules — which are as unified as possible — for determining the level of financial participation by the Commission.

Clear instructions already exist regarding the documents to be supplied by outside organizations in support of reports on the use of funds made available to them, and these will be reissued.

9.30 to 9.34. The question is raised (paragraph 9.33) whether the Parliament and the Commission, in selecting the agencies to undertake the multi-media campaign took sufficient account of the price factor and whether the failure of the institutions to predetermine their specific requirements led to there being no real financial competition.

While being well aware of the need to conform with the rules of the Financial Regulation dealing with tenders for contracts, the two institutions were confronted by a novel situation in seeking to organize a multi-media campaign in each of the Member States with the technical help of advertising agencies. They took the view that, in approaching a number of agencies in each country, their essential task was to set out the objectives of the campaign, but to leave to each agency the choice of the means by which these were to be achieved. These objectives were set out in considerable detail in a document which accompanied the request for tenders. The budget available for each country was also

specified: this was essential information for each of the agencies involved. In making their final choice of agencies the institutions had to take account above all of the creative approach suggested, the coverage of the population to be achieved by the mix of media proposed, and the overall suitability of the political approach suggested for each individual country. In all these respects there was genuine competition between the agencies, whereas the price factor was of limited significance, especially because the agency fees in each case respected the standard charges laid down in each country by the relevant professional body.

9.35. The Commission has used the national offices to forward payments of subsidies for national organizations. This has enabled the offices which were closely involved in the selection of these organizations to supervise the proper utilization of the funds.

Since the point at issue is the submission of utilization accounts by the recipients of the subsidies, a reminder has been sent out to those who did not submit accounts to the Commission.

CHAPTER 10 — SUMMARIES OF REPORTS ON EXTERNAL BODIES

The Commission assumes that the Court of Auditors does not expect it to comment on this chapter. The Commission will give its replies via the appropriate channels.

CHAPTER 11 — THE GENERAL ACCOUNTS

11.4 and 11.5. The use of suspense accounts is prescribed in certain cases by Article 65 of the Financial Regulation. It is also necessary to use them in other cases where the transitory nature of a transaction makes it impossible to charge the revenue or expenditure in question to a budget article immediately. The Commission is doing all that it can to speed up the examination of these transactions and the clearance of suspense accounts. The Commission is prepared to comply with the wishes of the external audit body concerning the presentation of the balances of suspense accounts in the balance sheet.

11.6. (a) The amount of 293 000 EUA represents the total advances granted in 1973 to 12 research institutes in connection with four-year shared-cost research contracts in the field of classical swine fever and African swine fever. At that time, these advances were charged to a suspense account. They were to have been cleared in 1977, at the time of the final adjustment, and charged to the budget article concerned.

Meanwhile the advances in question have been finally charged to a budget article.

(b) These payments are charged to the 'sundry advances' account because they relate to leases entailing tenancy charges and it is necessary to split between several budget items amounts which are not known when the entries are made. Although, in general, adjustments are made in the same financial year, or else by charging against carry-overs, a procedure which does not infringe the annuality principle, the Commission will in future charge against the budget account at least the amount of rental proper.

The Financial Regulation does not in principle allow expenditure the final amount of which is not yet known to be charged against a budget article.

As regards the presentation of the balance in question in the balance sheet, the Commission would refer to the reply given to paragraphs 11.4 to 11.5.

(c) The clearance of advances on mission expenses by the Commission departments concerned is dependent on the promptness with which statements of expenses are submitted. As already explained in the reply to paragraphs 8.10 to 8.13 in Chapter 8, the Commission is doing all that it can to reduce the number of statements submitted late.

As regards the presentation in the balance sheet of the balance of the suspense account concerned, the Commission would refer to the reply given to paragraphs 11.4 to 11.5.

(d) The Commission departments will take account of the comments of the Court of Auditors at the closure of the financial year.

11.7. The Commission would refer to its reply to paragraphs 11.4 to 11.5.

11.8. In view of the quantity and geographical spread of data to be taken into consideration, a balance

sheet of the kind that the Court of Auditors has in mind in points (a) and (b) poses particularly difficult problems of internal organization which it would take some time to overcome. Also, extra staff would very probably be needed. The Commission is prepared to comply with the requests of the Court of Auditors subject to a careful examination of the extent of these problems.

As regards the recording of receivables and payables in the general accounts, the Commission is aware of this state of affairs, and is endeavouring to get to grips with the problem more effectively, from year to year.

11.10. As regards the inclusion of the assets and liabilities of the European Coal and Steel Community in the balance sheet of the Communities to be drawn up in accordance with Article 76 of the Financial Regulation, the Commission would refer to the general principles of the Financial Regulation, in particular the second paragraph of Article 1 which reads as follows:

> 'For the purposes of this Financial Regulation, the revenue and expenditure of the Communities shall comprise:
>
> — the administrative expenditure of the European Coal and Steel Community and the corresponding revenue,
>
> — .....
>
> The abovementioned expenditure shall comprise that arising from the activities of the institutions.'

The present balance sheet of the Communities has been drawn up on the basis of these provisions.

The Commission is of the opinion that the Financial Regulation does not apply to the independently-run restaurants and staff shops (economats), and that their accounts with the institutions should be regarded as sundry debtors or creditors accounts. The Commission would also refer to the reply given to paragraphs 8.59 to 8.61 in Chapter 8.

As regards points (c) and (d), the Commission will review the situation in the light of the comments of the Court of Auditors.

11.11. The Commission will endeavour to achieve a more complete harmonization of the various headings.

11.12. The accounting departments of the different institutions are actively working towards the solution advocated by the Court of Auditors concerning the general problem of balances outstanding between institutions. As regards the comments concerning the suspense accounts for re-use, no easy solution has yet been found because there are technical difficulties concerning the relations between institutions.

11.13. Articles 73 and 75 of the Financial Regulation provide for the revenue and expenditure account to be 'classified' in accordance with the budget nomenclature and for it to be submitted 'in the same form and following the same subdivision as the budget'. Article 75 also stipulates that the revenue and expenditure account 'shall cover all revenue and expenditure transactions relating to the preceding financial year for each institution'. However, to comply with the wishes of the Court of Auditors, the Commission could examine the possibility of grouping together Titles 1 and 2 in the revenue and expenditure account, while indicating, as for revenue, the breakdown of expenditure by institution at least for the main classes.

11.15. As, in accordance with Article 71 of the Financial Regulation of 25 April 1973, the Commission kept its accounts in Belgian francs until 31 December 1977, the revaluation provided for in Article 15 of Council Regulation (EEC) No 2891/77 was carried out on the basis of balances expressed in Belgian francs. The Commission opted for this solution as it seemed to be the most rational working approach. The Commission is aware that this procedure meant a temporal shift of certain exchange-rate differences with the effect indicated by the Court of Auditors.

As regard the 'Advances — EAGGF, Guarantee Section' and the 'Advances — food aid', the Commission adopted the dates specified in the draft Regulation on the procedure for applying the EUA to the legal acts adopted by the Community institutions.

11.16. The Commission will take account of the comments of the Court of Auditors when the next balance sheet is drawn up. However, it would emphasize that its approach with regard to the closure of the financial year 1978 was more suited to the circumstances, in view of the considerable amount of work involved in changing over from the unit of account (u.a.) to the European unit of account (EUA) and the short deadline set by the Financial Regulation for drawing up the balance sheet.

11.18. The Commission does not dispute the facts, but would emphasize that the departments concerned are overworked.

11.19. The Commission is endeavouring to improve its internal controls and will pay particular attention to the general problems raised by the Court of Auditors.

With regard to points (a) and (b), the Commission would refer to the reply given to paragraph 11.6 (a) and (c).

As regards points (c) and (d), the Commission would emphasize that the errors discovered did not have any financial implications.

11.20. As affirmed in paragraphs 11.4 to 11.7, the Commission has already taken steps to improve the analysis and clearance of the accounts.

The Commission is able to comply with the suggestions of the Court of Auditors.

11.21. For the reasons given above, the Commission is not entirely in agreement with the conclusions of the Court of Auditors.

11.22. As regards the balance sheet, the Commission would emphasize that the existing presentation is the end-product of an evolving process, and that it is willing to comply with the wishes of the external audit body, as pointed out in the above replies. As regards the comments concerning the revenue and expenditure account, the Commission would refer the Court to the provisions of Article 1, the first paragraph of Article 73 and Article 75 of the Financial Regulation, while reaffirming its willingness to make any improvements which are compatable with the provisions of the Financial Regulation and the capacities of the Commission's departments.

CHAPTER 12 — REVENUE

12.16 and 12.17. Following the Decision of 21 April 1970 establishing own resources and the first implementing Regulation (EEC, Euratom, ECSC) No 2/71, the question was discussed by the Council and it was agreed to take into consideration the statistics available before adoption of the budget; it was also decided that the calculation of financial contributions would not be changed even if the statistics were subsequently revised.

Application of the EUA to financial contributions

12.18 to 12.20. The solution proposed by the Court of Auditors in point 20 does not take sufficient consideration of the time limit of 15 days provided for by Article 30 of the Financial Regulation and introduced at the request of the Member States whose national audit bodies insisted that the order of payment to the Community budget should be approved by them before being executed.

As a result, the amount shown for payment should correspond exactly to the sum paid. This would not be the case were the exchange rate applied on the day on which the payment was executed which, by definition, is later than the date of the examination by the control bodies.

Isoglucose production levy (Council Regulation (EEC) No 1293/79)

12.21. A new isoglucose Regulation (EEC) No 1293/79 was approved on 25 June 1979. Article 2 of this Regulation states that the provisions of Title II of Regulation (EEC) No 1111/77 are repealed with effect from 1 July 1977.

This provision is tantamount to wiping the slate clean as regards the payments due from the Member States. The reimbursements will be made as the administrative or legal decisions which may arise in each case establish the right of the taxable person — now the creditor — to reimburesment.

A negative establishment could then be applied.

The new Regulation creates a new system based on the isoglucose production quotas, similar to that now existing for sugar.

This solution is entirely in keeping with the suggestions made by the Court of Justice in its Judgment outlining the inadequacies of Regulation (EEC) No 1111/77.

12.24 to 12.26. The Commission is aware that the practices concerning the physical examination of goods declared for customs purposes vary considerably from one Member State to another. This is largely due to the

differing natures of the administrative structures. The better equipped a customs administration is to examine an undertaking's records, the more likely it is to conduct examinations of this type, either in addition to or instead of physical examination. Furthermore, it would not be appropriate to draw up Community standards for the frequency of the physical examinations to be conducted by the customs offices.

In general, the Commission feels that the need for a steady traffic flow dictates that customs activities should gradually shift to the auditing of accounts. This tendency is one of the main features of simplified procedures. Since, however, physical inspections are still most useful, any simplified procedure regulated by Community law is designed to allow the customs to conduct physical examinations whenever they consider them necessary.

In order to encourage application of Community law in conditions of uniformity and optimum effectiveness, the Commission is proposing a detailed study, in conjunction with the representatives of the Member States, of the conditions in which the examinations are currently conducted.

The Commission will assess the advisability of Community action in this sector in the light of the findings of this study.

12.28. Shortcomings in regard to the customs valuation declaration are discovered from time to time and are always looked on in a serious light. The Commission, on the basis of the comment of the Court of Auditors, will address a letter to the customs service of each Member State concerning the matter.

12.29. The suggested 'central clearing house' would be needed, indeed, but this body would have an annual workload of many thousands of cases and would require a large staff of high quality. Also, present procedure by way of a Community act created through Committee and Commission action would be unsuitable — the central clearing house would have to be armed with powers of decision akin to those obtaining in a national civil service. There would then be the question of the legal status of such decisions — to whom could an appeal against them be made?

A new valuation system agreed in the multilateral trade negotiations will be introduced by the Community on 1 July 1980. The particular problem of widely-varying adjustments to invoices in related-party cases will disappear with the old system. Indeed, one of the aims of the new valuation code was to abolish the scope for arbitrariness by customs officials which was inherent in the old system and which was at the root of the particular problem to which the Court has drawn attention. One cannot say, however, that the new system will ensure complete consistency of valuation treatment throughout the Community. The introduction of a new valuation system, negotiated by the Community as a whole, will render consistency of valuation treatment an imperative necessity.

A solution to the problem at reasonable cost is not readily apparent but it is a matter which will be kept under constant review.

12.30. The goods to which the standard average values system applies (citrus fruits, apples and pears) are usually imported on consignment and firm invoiced prices at import are the exception.

A standard average value is based on Community market prices in a given fortnight and weighted by reference to the quantity imported into each Member State in the course of a particular season. This weighted figure for the whole Community cannot validly be compared with an invoice included in an individual customs entry at a particular port.

It is doubtful whether the system of standard average values could be justified at all if the customs or the importer could choose between the standard average value and an invoice price. If such a possibility existed, one would have to decide whether the standard average value should be regarded as a minimum or a maximum value. One would also have to look again at the weighting (for market price plus quantity imported) procedure and consider whether goods cleared against invoices should in some manner be taken out of the balance. It is not clear how this could be done as the fortnights for sales and customs clearance are different.

When the new valuation system is introduced every effort will be made to act upon the Court of Auditors' suggestions.

12.32. The question raised by the Court of Auditors is currently being examined by the Commission; the Court will be informed of the results of this examination as soon as possible.

12.33. Under Article 269 of the customs code, the customs stamp duty is collected for any receipt issued

by the customs administration in respect of the duties and charges recorded in the import or export tariff or the internal consumption taxes provided for in Article 265 of the code. The agricultural levies are not included in the assessment base of the customs stamp duty.

The rate is 2 % of the amount recorded on the receipt, i. e. the same rate which applied on the date when the Common Customs Tariff was introduced.

When the stamp duty is levied on receipts for the payment of duties under the Common Customs Tariff, it can be described as a charge with an effect equivalent to a customs duty. But this definition is not sufficient evidence to prove its incompatibility with the EEC Treaty.

In accordance with the case law of the Court of Justice (Joined Cases 37 and 38/73, (1973) ECR 1609) as regards those charges which are made on goods imported directly from third countries and which were in existence when the Common Customs Tariff was introduced, prior evaluation by the Community authorities is necessary in order to establish their incompatibility with the Treaty and the obligation to eliminate them. It follows, the Court of Justice states, that such charges may only be considered to be incompatible with Community law pursuant to provisions adopted by the Community.

Examination of the customs stamp duty as to its compatibility with the EEC Treaty therefore depends on the provisions made by the institutions of the Community as regards trade with non-member countries. The preferential Agreements between the Community and certain non-member countries usually contain a provision which prohibits the collection of import taxes whose effect is equivalent to customs duties. The Commission is continuing its study of this question, to ensure compliance with Community law.

Differences in the date of establishment of own resources

12.38. The Commission is aware of the problem raised by the Court of Auditors; last March it set up an interdepartmental group to define the term 'establishment' in such a way as to eliminate the differences existing in this sector between the Member States.

The Commission should receive this group's final report in the course of the year; the Court will be informed as soon as the Commission takes the decision.

12.41 to 12.43. The Commission is aware of these problems, which are connected, and agrees with the Court of Auditors that the procedure could be improved.

While the Commission is empowered by Article 185 of the EEC Treaty and Article 39 of the ECSC Treaty to proceed to the immediate collection of fines it did not do so where an appeal was made, originally as a matter of practice, in order to reduce the procedural burdens of the Court of Justice and thus ease the process of appeal for the Court and the parties involved. This practice was subsequently incorporated into the internal instructions referred to.

Experience has shown that this practice, far from achieving the desired result, has encouraged parties to use the process of appeal to delay payment. Having regard to the high rates of interest which currently prevail in most Member States, an undertaking can obtain considerable financial advantage by using the process of appeal to delay payment of even modest fines.

The appeal process is lengthy and it may take several years before judgment is given. Since the savings involved by deferring payment for this period will often exceed the costs of the appeal, not only is the normal risk of appeal reduced to a minimum but an undertaking can actually profit from the procedure even when it loses.

The internal instructions also require the Commission to allow a three-month time limit for payment of a fine. This requirement has caused difficulty for the Commission in the case where the party concerned has gone bankrupt.

These problems are being examined and the internal instructions will, if necessary, be amended.

A possible solution is for all fines to be made payable immediately and for the Commission to proceed to collection upon notification of the decision to the party concerned. If that party informs the Commission of its intention to appeal, the Commission could agree to defer collection on condition that the full amount due was paid into a blocked account. This arrangement would prevent the appeal process being abused and would also reduce the risk of loss in the event of bankruptcy.

The proposal to charge interest is attractive. There are, however, legal and practical problems involved. It is doubtful whether there is a valid basis under existing Community law for the imposition of such a charge. The EEC Treaty is silent on this subject. The ECSC

Treaty provides, in Article 50 (3), for the payment of a surcharge of up to 20 % per annum for the non-payment of levies. Article 91 also provides for the withholding of sums due to undertakings for the non-payment of fines.

There is also the problem that if the Commission fails in its attempt to collect a fine, enforcement is governed by the rules of civil procedure in the Member State concerned and this may involve a lengthy process. In view of these problems the practical solution may be for the Commission to declare, in all decisions imposing fines and penalty payments, that the sums involved are payable forthwith (or on becoming due in the case of periodic penalty payments) and that a declared rate of interest will be charged for delay in payment. The adoption of any proposal would, in any event, be subject to the unlimited jurisdiction of the Court of Justice to review decisions in which fines or periodic penalty payments are imposed.

PART II: THE EUROPEAN DEVELOPMENT FUNDS

SECTION 1: THE FIRST THREE EUROPEAN DEVELOPMENT FUNDS

1.1 and 1.2. For a number of years the Commission has been endeavouring to achieve final closure of the operations of the first two Funds. The final closure of the first Fund is expected shortly. There are six projects still outstanding, but they are all in the process of being closed. Seven projects were closed in the first half of 1979.

The position of the second EDF is as follows:

12 projects were closed in the first half of 1979, leaving 112 projects still outstanding. It is true that seven new financing decisions were taken in 1978; it should however be explained that six of these decisions related to projects already contracted and fully paid for. In other words, they were not strictly new projects but rather additional commitments designed in most cases to complete projects under the third EDF which had suffered a slight overrun.

The rate of closure of projects under the second EDF can be expected to increase as a number of them could not be closed until the same project, which continued under the third EDF, could also be closed. This procedure is due to the fact that, in some cases, the supporting documents for commitments and expenditure also cover projects under different Funds. It is thus difficult to obtain a full picture when they are inspected if the files are sent separately. In practice, the Commission is always prepared to send the Court promptly the files it wishes to inspect.

By way of information 28 projects under the third EDF had been closed when this report was drafted.

1.3. The balance of exchange losses amounting to 1 145 145 EUA on the balance sheet would appear to have been settled in the same way as the previous operation by drawing on the net credit interests with the financial establishments where the Commission keeps accounts.

The advance of 37 132 EUA granted to a former management body for the awarding of grants in Belgium is in the process of settlement. A way was found of clearing this advance, which was specified as Bfrs 561 337, after a further inspection of the body's expenditure. Agreement was reached on this between the Commission and the management body concerned which reimbursed an initial portion of the amount. The balance is to be recovered before 31 December 1979.

The payment of 589 EUA from the second EDF is to be settled shortly by means of a commitment to project No 216 016 07 entitled 'Emergency aid for the starving in Somalia' drawn on the EDF reserve account.

The advance of 5 444 556 EUA granted to the National Banana Board of Somalia will be repaid by the Somali Government in six half-yearly instalments of 907 426 EUA payable in Somali shillings. These amounts will be used to pay local EDF expenditure between 1 January 1980 and 1 July 1982 according to the memorandum of understanding signed by the Commission and that Government at Mogadishu on 6 June 1977. The Somali Government's debt is covered by an exchange guarantee.

The excess of 52 836 EUA is being settled by means of a commitment for this amount drawn on the Algerian reserve account (EDF 1). The Commission explained this operation to the Court when replying to the remarks made in previous reports.

SECTION 2: THE FOURTH EUROPEAN DEVELOPMENT FUND

2.12. (a) The Court of Auditors finds that there is a delay in the adjustment of 'operations awaiting audit' covering a total at 31 December 1978 of 14 259 042

EUA. The Commission does not share this opinion, since, in reality, this figure is less than one month's expenditure. At the end of 1978, the average monthly EDF expenditure, comprising direct and indirect payments, was about 20 MEUA; this average has since risen to nearly 30 MEUA.

It is therefore quite normal that at the end of 1978 a sum of 14 259 042 EUA should be waiting to be adjusted. The delay in certain operations is due to the fact that the necessary supporting documents often do not materialize. The delegations have had to carry out a great deal of research in order for the pending accounts to be settled and adjusted.

(b) The Commission shares the Court's view that advance payments totalling 27 332 097 EUA in connection with the Stabex operations should be itemized in the accounts. These are provisional operations as provided for in Article 19 (6) of the Lomé Convention which were finally adjusted in the transfer decision taken in the first half of 1979.

(c) It is quite correct that the entry in the balance sheet of 2 000 000 EUA as a contribution by the EIB does not exactly represent the actual situation. In fact, this sum is an extra contribution by the Member States decided by the Council on 29 June 1976 and made available to the Commission through the EIB, which entered the repayments from the ACP countries and the OCT under the heading of special loans.

The heading of this account will be altered accordingly.

(e) At 26 April 1979 the figures with regard to procurements were as follows:

(EUA)

1. 80 279·78 (arrived on 12 June 1979) in one instance,
2. 119 612·46 (arrived on 8 May 1979) in a second instance,
3. 40 017·45 (has not arrived) in a third instance.

239 909·69

With regard to the third instance, the Commission has written several times to the resident payments officer and the Commission delegate and is following the affair closely.

(f) The Court of Auditors has noticed that a sum of 0·06 MEUA should have been entered in the financial and administrative expenditure account instead of under exchange losses and gains.

This error has been corrected in respect of the financial year 1979.

2.13. These minor discrepancies stem from bookkeeping errors on certain account cards which were discovered after the end of the financial year. This explains why the necessary corrections in the accounts could only be made at the beginning of 1979.

Overpayments

2.14. The OCT target programmes were entered in the accounts in 1979 on the basis of the distribution table at 25 January 1979 which was approved by the Council on a proposal from the Commission.

The present state of the accounts therefore shows the actual allocation in respect of each overseas country or territory, with the result that the allocation balances no longer show any overpayments.

The units of national currency expressing any overpayment in the balances are now indicated only as a guide following the Commission's decision to enter EDF operations in the accounts in EUA; this enables the performance of contracts agreed in national currency units to be monitored exactly.

It can happen, however, that, as a result of differing trends in exchange rates, an overpayment with regard to any particular contract can arise in terms of national currency but not in units of account.

Such discrepancies, which are sometimes inevitable on completion of a contract, are always adjusted when the accounts are closed.

As regards the project mentioned by the Court of Auditors in the final sentence, total commitments amount of 1 471 570·53 EUA but actual expenditure to 1 475 756·12 EUA, i. e. there is an overpayment of 4 185·59 EUA. This is due to a significant increase in

the cost of a scholarship year caused by the rise in the cost of living (educational expenses, transport costs, etc.).

It was not possible to adjust this overpayment in 1978, since it was only discovered later when the balances were drawn up. Nevertheless an adjustment has been made in 1979 by deducting an appropriation of the same amount from the allocation in respect of the training programme of the country in question.

SECTION 3: CAPITAL PROJECTS

Agricultural and agricultural industry projects

3.2. It is true that agricultural projects are, by their nature, long-term operations. It is precisely for this reason that, during the past five years — marked by considerable price inflation — overruns have increased in number and size compared with the past and can no longer be covered by the provisions incorporated in the Financing Agreement.

The objectives of an agricultural project are generally laid down in the preparatory study drawn up at the Commission's request — usually by a consultancy bureau. To qualify for help from the various financing bodies — which think in terms of theoretical viability — these objectives are generally expressed in terms of maximum target values and are thus not always realistic. However, if the yield, production, surface area and manpower targets are not often achieved during the financing period, the results may subsequently continue to improve; this is because the change of ideas in agriculture demands time and gradual adjustment to new production techniques. Technical assistance for agricultural projects is becoming ever more necessary and should be stepped up in view of the growing shortage of competent managers in the developing countries. It should also be mentioned that the cost of technical assistance for a project depends on several factors, including the time required to complete the agricultural project.

Preparatory studies

3.3. The main cause of the possible failure of the projects mentioned below is not the total or partial lack or the poor quality of the studies but the socio-economic policies applied by the recipient countries.

(a) It is exaggeration to claim that the project mentioned in (a) is far from achieving its objectives in 1979. The stage of investment and of settlement of the population is being completed. The final objective of the financing granted under the fourth EDF — the financial equilibrium of the company administering the area in 1982 — seems to have been achieved.

As regards the fact that the inhabitants of a mountainous region have not been able to adapt after being relocated in the plain and that they had not been given any psychological preparation, it should be noted that it is always difficult to move to the plain a population which for centuries has lived in a better climate. From information handed down from generation to generation, the farmers know that the plain is unhealthy and its inhabitants and livestock suffer from disease and are infected by parasites, etc. To change this attitude, a long period of psychological preparation and indeed a real mental and spiritual adjustment is required.

The main reason for abandoning cotton-growing in this area was not technical (soil quality) as the report claims, but economic: the country's cotton policy, the relative trend in the prices of rice, provisions and cotton, the growing demand for rice. No preparatory study could have foreseen the current trend.

As for the change in the area allocated, this project is the first of its type (an irrigated area with total water control) to have been launched in the region. As there was no practical experience in the area, the preparatory studies had to estimate the periods required for executing the works on a transposition to this area of the norms achieved elsewhere in Africa. The determination of the optimum size of the parcels of land would have necessitated the establishment of a smaller pilot area. However, this pilot area would have required as large an investment (water infrastructure) as the current area and thus disproportionate to the results expected.

(b) It seems premature to speak of the failure of the project mentioned in (b). Admittedly, it remains extremely marginal but the rationalization measures envisaged when the last Community financing was introduced should enable this project to achieve financial equilibrium, at least in the long run. A fair number of difficulties connected with this project were known at the outset, but the decision to finance it was taken mainly in order to foster the monetary economy in a region which has no other potential.

(d) The rice-growing area mentioned in (d) was originally planned as part of the programme for improving natural flooding of the paddies by the technique of controlled flooding. However, the river did not overflow its banks in the extreme droughts of 1972 and 1973 and the flooding, which in an

average year extends over more than 5 000 hectares in the area, covered only a few hundred hectares and lasted for too short a period to allow the rice to grow normally, causing a real famine in the whole region.

In view of the seriousness of the situation and the need for urgent remedial action, the Commission, at the request of the country's authorities, agreed to make funds available by way of exceptional aid in 1974 so that the controlled flooding method could be replaced by total water control by means of pumps in the river, resulting in two crops of rice a year; this was obviously a more expensive method.

Unfortunately, because of the seriousness of the situation and in view of the various political and social constraints, the total water control had to be implemented from rather summary studies drawn up for the controlled flooding technique; the additional studies were conducted in often difficult conditions as work progressed.

Total water control also requires terracing work and civil engineering of a higher standard than in the case of simple controlled flooding. The cost per hectare is therefore higher, leading to a reduction in the surface covered in order to remain within the budget.

Measures for encouragement of production

3.4. The question appeared settled when the project was examined. The expropriations had taken place some years ago and the land was the private property of the State. The Financing Agreement did not therefore contain any special conditions on this point. Naturally, in cases where the implementation of an EDF project raises problems of expropriation which are not settled in advance, it is ensured that the provisions of the Financing Agreement determine the procedure for conducting these operations (timetable, amount for compensation included in the national contribution to the project, etc.).

As regards the project in question, it is regrettable that the authorities concerned did not inform the Commission of the problems of compensation which continued to exist. However, it should be noted that, although the fires caused harmed the palm groves, most of the area under cultivation has returned to normal growth. On the whole, the damage was probably not very extensive.

3.5. Management of the State agencies and prices policy. These questions are very important and there is no miracle solution which can be used in every country. Although the price of products on the world markets is subject to considerable fluctuation and generally remains low, it is not easy to reconcile:

(a) the State's financial requirements when resources are low and mainly derived from agriculture;

(b) the need for the structures or bodies concerned to be viable and efficient;

(c) the best remuneration possible for the farmers.

However, these considerations do not alter the fact that the Court's comments about the oversized administration and perfunctory management of the State agencies marketing the products are well-founded. The Commission is aware of these problems and endeavours to take action as far as it can. Unfortunately, its action often comes up against the political aspects of some situations which the Governments responsible do not always wish to resolve.

One country's policy of purchasing food crops at low prices is also an anomaly and the Commission has unceasingly drawn the attention of the national authorities to the resulting adverse effects on the smooth operation of the projects. The price paid to the rice producer was recently increased by 50 % (between 1976 and 1979), thus improving the situation considerably.

Social aspects

3.6 to 3.9. In most cases, the Commission appreciates the social aspects of the projects, as they do indeed represent a considerable guarantee of success. It is these aspects which give the populations concerned stability and security and ensure that they are better trained, enabling them to adapt more easily to their new situation. But the social measures linked with the investment must be properly adapted to the mentality and customs of this population. The growth of the social demands must also be taken into account and, ultimately, despite the initial analysis to assess the risks and uncertainties of a project, a decision must be taken one way or the other.

As regards an agricultural industry complex (palm grove), it was well known:

(i) that the proximity of a large town represented a risk (the attraction exerted by a town despite unemployment);

(ii) that work on a plantation is not always easy: peak periods, work which is sometimes laborious (picking the bunches) and less highly valued in countries which suffer the social disadvantages of development (prestige of non-manual work or work connected with the modern sectors of the economy). In spite of this, there is still sound justification for the investment decision and its economic and social objectives are likely to be achieved. It should be noted that wages on plantations and in the modern economic sectors are relatively high in the country in question.

Local management and expatriate technical assistance

3.10 to 3.13. There is no doubt that the quality of technical assitance has deteriorated over the past few years. This is largely due to the following factors:

(a) both the planning consultants and the EAC are finding it increasingly difficult to recruit experienced staff;

(b) the ACP States refuse to engage junior specialists because of their lack of experience. This creates a vicious circle, as no junior staff are gaining experience;

(c) the quality of local managers is not improving. Anyway such supervisory staff are not attracted to rural life which is clearly less comfortable than the conditions of town life.

Division of powers between the Commission and the European Investment Bank

3.14 to 3.16. As the Court of Auditors stresses in its report, the decision to transfer the powers relating to risk capital and special loans to the EIB was adopted in the internal agreement between the Member States.

The Commission is well aware that under such circumstances, from time to time problems may arise in achieving coordination between Community institutions and in informing Commission delegates.

On this second point, whilst it is correct that in respect of internal procedures the EIB is not in any way obliged to communicate with the delegations, it should be pointed out that in practice contacts between certain delegates and EIB representatives are becoming increasingly frequent and that the building up of such relations depends very much on the ability of the individuals concerned to maintain good relations.

Major infrastructure projects

3.21. By contrast with feasibility studies for civil engineering or architectural projects, technical design and quantity surveying for roads depend on field operations (topographical surveys, borings, laboratory tests). The results of such operations can only be verified by repeating the operations. The quality of a study therefore depends on:

— the terms of reference,

— the ability of the consultants or the body commissioned to carry out the study,

— how closely the administration monitors, observes and discusses with the consultants the problems arising in the course of a study.

It is therefore difficult if not impossible to make a statement in advance as to the exactness of certain aspects of infrastructure, as these can only be verified by the completion of related works.

Clearly this does not prevent the Commission examining studies closely to check that there are no design errors or figures which contradict experience and, if there are, from requesting such checks and further analyses as may seem necessary.

3.22. The Commission shares the views of the Court of Auditors.

Road infrastructure

3.31. There is no doubt that a policy of using more manual labour for road maintenance should be advocated, particularly if there is underemployment.

Efforts have been made in the past, and will now be stepped up, to persuade ACP authorities to implement a policy of this type wherever technically and economically possible.

Nevertheless it should be stressed that there are limits to replacing road maintenance machinery by a more intensive use of manual labour:

— in the case of surfaced roads, the only scope lies in small jobs like clearing ditches and culverts, filling potholes, cutting grass, etc.,

— trying to engage labour in the villages through which the road passes may prove difficult, given that this type of maintenance is a continuous job and the availability of peasant labour depends on the agricultural calendar,

— Using urban labour usually requires highly complex transport arrangements.

This being said, the main problem is the availability of operating funds to pay for personnel and equipment.

In this field the Commission will make every effort to make the most of the limited opportunities offered by the current texts.

3.39. The Commission goes over all estimates for works and does not allow itself to be influenced by the estimates of the countries receiving aid. It should also be mentioned that the prices asked by undertakings depend on the standing of the financiers. It is quite possible that when the EDF is the sole financing body it is possible to obtain better prices.

Hydro-electric infrastructure

3.46. The main reason for building this dam was that it would make up the present shortfall in electricity production and cover present and future requirements, which will amount to 106 million kWh in 1980 and 177 million kWh in 1985 respectively.

The dam will also serve as a regulator for irrigation, to complement the building of small reservoirs on small rivers in a basin of the river in question, upon which the Commission is now engaged.

Health and social welfare infrastructure projects

3.73 and 3.74. The Court of Auditors highlights a phenomenon which is prevalent in poor countries, both in the rural areas and in the towns. The population seems reluctant to use modern facilities for distributing drinkable water, preferring sources of water of dubious quality (e.g. wells which are polluted because they are not deep enough, marigots, rivers, etc.).

In the town in question, therefore, the population still uses wells to a very large extent or, at best, uses tap water only for cooking and drinking.

In the light of the factors which go to make up under-development, the food projects represent a fundamental contribution essential to the furtherance of development, but they can be fully effective only if other action is taken in other areas (e.g. production, hygiene, teaching etc.) which have indirect implications for the water project.

3.75. Wherever possible, the Commission endeavours to advocate the use of equipment whose operating features are in line with local capabilities and with the requirements to be satisfied. This is not always possible.

Technological advances in the industrialized countries result in the manufacture of increasingly sophisticated equipment and hence the withdrawal from the market of older, technically less sophisticated designs.

The Court of Auditors has touched on a difficult problem of which the Commission is well aware. In many cases, however, it can only be overcome by stepping up the efforts to train highly-skilled staff in the developing countries and by developing appropriate intermediate technology.

3.76 and 3.77. This project was put into operation in 1978; to be used to the full the scheme will have to bring about a profound change in the behaviour of the population which previously contented itself with free river water and did not have to pay a fee for access to the urban distribution system.

Before optimum use is made of the facilities, a running-in period must therefore be accepted, and it will also take some time for the company in charge to take over the management of this new project.

However, once the special fund system — which has already produced results in other ACP countries and was created to enable the least-favoured populations to be connected up to water supplies — is operational, the validity of the project should no longer be in question.

Moreover, the dispute between the distribution company and the municipality which does not wish to pay for the water provided at the public fountains

should not call the project design into question. The Commission delegation is doing all it can to resolve this problem.

The many letters sent to the country's authorities have already resulted in the hospital centre and a hotel being connected up to the town network.

It has to be admitted, however, that the capacity of the treatment station exceeds present requirements.

Nevertheless, it should be recalled that one of the project's objectives was to supply drinkable water to a settled population and a floating population, and the country's authorities were expecting a large increase in these populations, entailing considerable requirements and therefore necessitating facilities which at present may appear to be surplus to requirements.

However, there is a possibility that the town concerned, the second largest in the country, could experience considerable population growth, as has already happened in other towns, and that the demand for water may rise, as a result.

3.78. It has to be admitted that the project concerning a site and service scheme for young managerial staff has fallen far short of expectations, since the housing, which was to have been built on the site prepared with Community funds, and was to have been financed from other sources, was not built. Although the Commission does not have at its disposal effective means of remedying such a situation, it deplores the fact that EDF finance has not yet been put to full effect because of the absence of bilateral financial aid from a Member State. It should be pointed out, however, that the site in question is still available and can be used if other funds can be mobilized.

3.79 to 3.90. The Commission is perfectly aware of the problems of adapting buildings and equipment to the climate, resources, traditions and way of life of the locality in which they are used.

The Commission has learned from past experience and, for new projects, has made considerable efforts, in the field of forward planning and research, to overcome the shortcomings observed and avoid, as far as possible, a repetition of past mistakes.

The following objectives have been set as regards the financing of new projects:

(a) better socio-cultural adaptation of projects;

(b) simpler infrastructure and equipment;

(c) optimum use of local equipment and manpower resources;

(d) more training schemes for management and maintenance staff.

The question of maintenance and the proper utilization of completed capital projects concerns the Commission as much as it does the Court. A complex problem is involved and the responsibility lies primarily with the national authorities in the countries where the projects are carried out.

Clearly, maintenance carried out at the appropriate time would maintain the value of an investment project and permit better utilization. However, all parties, in particular the Commission, are aware of the difficulties that the ACP countries have in budgeting for the maintenance and proper functioning of projects. However, some countries do make an effort which should not be underestimated.

As regards the question of supplies of spare parts, the Commission is endeavouring to resolve this problem to the best of its ability by specifying in its invitations to tender:

(a) simpler equipment which is less likely to break down;

(b) greater uniformity for the apparatus or equipment in a complex;

(c) efficient after-sales service.

SECTION 4: MICROPROJECTS

4.2. The process of adopting administrative rules for this type of financing has been slow. However, the time elapsing between the date of the request and that of the financing decision is generally about four to six weeks. Any longer interval is simply due to the fact that further information had to be obtained from the State concerned.

4.3. The Court states that 'for over half of the beneficiary countries of the Lomé Convention there has to date been no decision concerning this type of action'. This is not abnormal, since not all of the signatory

States to the Lomé Convention have made arrangements for the financing of microprojects in their indicative programme. There has, however, been a marked improvement in the situation since 31 December 1978. At 1 July 1979, 43 programmes had been approved totalling 15 200 000 EUA (76 % of the total of 20 MEUA allocated to the Lomé Convention being committed). Only two countries which are planning microprojects have not yet submitted their requests for financing.

4.4. The small percentage of payments noted by the Court of Auditors is due to the relatively late launching of this type of financing, which was caused by delays in the approval of the administrative rules (see point 4.2) and the fact that the ACP States have not always recognized the value of this new form of technical and financial cooperation and, as a result, have often submitted their programmes at a very late date and only at the Commission's prompting.

The situation has improved considerably since 31 December 1978:

— final commitments: 11 433 169 EUA,

— expenditure: 5 070 338 EUA

accounting for 57·16 % and 25·35 % respectively of the overall allocation.

SECTION 5: GENERAL TECHNICAL COOPERATION

5.2. The Court states that the percentage of final commitments (41·7 %) is low in relation to total commitments. This statement should be qualified. The lag can be attributed to the accounting system used for these operations, the appropriations for which have been committed *in toto* by the Commission for a multiannual period.

These appropriations are, however, finally committed as and when individual decisions are taken by the Commission for each award holder according to the length of his studies. Since the major proportion of expenditure cannot be entered in the EDF books until after the auditing of the annual accounts, which are submitted not later than 31 March (i.e. six months after the end of each academic year, which is fixed at 30 September), there is bound to be a delay in the entry of expenditure in the accounts.

5.3. The increase in the amount paid out as advances under the fourth EDF is due to the growing number of award holders studying in the Member States and to the need to open special accounts in the ACP States for holders of Commission grants studying in those countries.

The Commission periodically adjusts the amount of advances granted to match actual needs, and takes into account the available funds unused when replenishing the accounts.

5.4. At 1 January 1979, the expenditure of four management bodies for the 1976/77 academic year remained to be checked. With the exception of one body, which will have been checked by the end of the year, auditing is now completed.

Over one third of the audits for the 1977/78 academic year have been completed and the remainder is expected to be completed by 31 March 1980.

As regards award holders studying in the ACP States, expenditure is checked on a day-to-day basis; there has been no delay in this sector, which covers some 3 500 award holders (approximately three quarters of the total). The Court's statement that there had been 'serious delays in the accounting for advances' goes a little too far.

Certainly, one management body forwarded its annual accounts without enclosing supporting documents, but this was because the law of its country requires vouchers to be kept for seven years since the body is a public department.These accounts are carefully checked in an audit and the Commission can make an on-the-spot inspection of the vouchers.

5.5. The Court of Auditors' comment will be taken into account when the financial control of the European Development Fund is reorganized.

It is quite normal for the distribution of expenditure under one or more Funds not to correspond to the distribution of the advances granted.

Since the cash reserves of each Fund are considered as a single unit, all those of the third EDF were used up before those of the fourth EDF were drawn upon, in accordance with the wishes of the Member States. It is hence logical that the budgetary charging of expenditure will be different from that for the clearance of advances.

The comment made in the last paragraph of this point is answered in point 1.3.

5.6. For studies or training courses in the countries of origin, the Commission generally aligns its grants on the level of government grants. In the particular case of the country mentioned by the Court of Auditors, the Commission did award higher grants up to October 1977 than those paid by the Government to its university students. This anomaly was, however, stopped at that time at the delegation's initiative, and grants from the EDF have since been aligned on government grants.

The Commission has one award rate for regional or inter-State bodies organizing training courses in other ACP States. In many cases this is lower than in the country of origin.

5.9. The role of Commission delegates in the selection and processing of applications is simply to check that the training requested corresponds to the programme drawn up, without encroaching on the sovereignty of the ACP State; the State is responsible for selecting award holders through its awards committee, which has its own criteria laid down by national legislation.

To facilitate training courses in the countries, grants are awarded on the basis of a list. Only the actual awarding is on this basis, since each delegation has files for all the students.

SECTION 6: TECHNICAL SUPERVISION AND DELEGATED FINANCIAL CONTROL

6.1. It is true that the EAC balance sheet was not submitted officially to the Court of Auditors before 31 March. This document was nevertheless drawn up within the prescribed time limits, checked by the EAC Auditor at the beginning of April and forwarded unofficially to the Court during the month of May.

The final approval of this document had to be held up owing to negotiations for the Lomé II Convention; the Commission will take the necessary steps to forward the balance sheets and the revenue and expenditure accounts within the time limits laid down by the Regulations.

6.2. (a) The Court's remarks on the incompatibility of the functions carried out by the Commission official who acts as Auditor for the EAC accounts whilst also being responsible for the department which supervises EAC commitments prompt the following comments:

The function of EAC authorizing officer is in practice performed by the delegated administrator of the Association and not by the official responsible for performing the tasks of Auditor. It should also be borne in mind that, with effect from 1980, these comments of the Court on the subject of incompatibility of functions will cease to apply, because the activities administered by the EAC will be included in the budget.

(c) The advantage of submitting the EAC balance sheet and accounts in cumulative form — apart from the last financial year which appears separately for each category of expenditure — is that it facilitates comparison between the activities of the last financial year with previous results. In fact, it is the term used (balance sheet) which is incorrect; it would be more correct to refer to a revenue and expenditure account managed on behalf of the Commission; moreover, the Commission subsequently includes the EAC expenditure for each financial year in its own accounts.

(d) The Commission is already aware of the problem of how to record EAC exchange rate gains and losses in the accounts; the Auditor's Report for the financial year 1978 makes reference to this, requesting that a decision be taken on the matter. The Court will be kept informed as soon as a solution has been found.

(e) The sum of two million EUA — representing the difference between advances made to the EAC and expenditure entered in the accounts at 31 December 1978 by the Commission — is attributable to the fact that on this date there was still technical aid expenditure covering a three-month period to be cleared, as indeed the Court pointed out in its comments.

These transactions were regularized during the financial year 1979.

6.4. The Commission considered it necessary to continue to employ the services of this expert for obvious reasons. The assignment of a full-time adviser with expert status to the Commission delegation in every country where tea projects are being carried out would have been difficult, and above all very costly. The use of a consultancy for each project would likewise have been very costly. The advantages of the contract concluded with the expert are: (1) the low cost of the services, and (2) the flexibility in the contractual

relationship. It is in fact laid down that the expert's missions are undertaken at the Commission's request. All the Commission would have to do, therefore, were it no longer satisfied with the expert's services (which is not the case) would be to stop granting mission orders.

6.5. While it is true to say that the Commission departments responsible have acquired a certain degree of experience of tea projects, it is also true to point out that the range of tasks entrusted to the expert could not be performed either by headquarters' officials or delegation staff.

6.6. The significant increase in the tasks given to the expert obviously reflects the expansion in tea projects. Since the Court mentioned the figure of 264 paid working days for the first eight months of 1978, it should be pointed out that several experts from the consultancy may be called upon to perform tasks relating to tea projects, that in the United Kingom six days a week are regarded as working days and that, lastly, overseas missions are sometimes remunerated for all calendar days including Sundays and public holidays.

6.7. The Commission is aware of the expert's activities outside his Community activities but, in its opinion, these do not lead to a conflict of interests.

6.8. The lack of qualified staff in the construction and setting out of tea factories has necessarily led the Commission to give the expert a key role in the project involved.

But, like any other delegation adviser, the role of the expert has been limited to the drafting of proposals for technical opinions; the power of decision in the final choice of either technical solutions or contractors lies with the authorities and is subject to the agreement of the delegate or the Commission.

6.10. Payments in Belgian francs were in fact made into a Swiss bank account on behalf of a firm in Jersey operating in Nairobi. The matter was put right some months ago and steps have been taken by the Commission to prevent any recurrence of this kind.

6.11. The Commission knows the tea factory which the Court of Auditors visited: compared with the tea factories financed from the EDF resources, it comprises two innovations, i.e.:

— one concerning drying: the use of a fluid bed dryer,

— the other concerning the processing of leaves: the combined use of the LTP (Lawrie Tea Processing) and the CTC processes.

The 'fluid bed dryer' is a new type of dryer which has apparently not yet been fully developed.

Moreover, this equipment is at present manufactured only in Sri Lanka (Colombo Commercial Company).

The LTP process has been in operation only for some 10 years. It is used mainly in one ACP country, where only mediocre quality teas are produced. It has been tried out in another ACP country (high-quality tea producer) and, as far as the Commission is aware, its use has been abandoned.

This process has two main advantages over the traditional processes (Rotorvane or Orthodox and Rotorvane — CTC used in factories financed by the Community), i.e.:

(i) lower investment cost,

(ii) easier and cheaper maintenance.

On the other hand, it requires more powerful generators (the LTP equipment needs a 60 hp motor whereas the motors used in conventional tea factories are generally no more than 15 hp), and very careful withering — which requires a high degree of skill on the part of the management staff (the factory mentioned by the Court of Auditors employed two expatriates).

The Commission has no preference for a particular process. Together with the national authorities concerned, the Commission came to adopt the CTC or Rotorvane processes as an administrative solution for safety reasons since the LTP process had not at the time fully proved itself.

However, since the calls for tender were sent out to general contractors and not to manufacturers, the specifications gave them the option of offering different equipment as an alternative, provided that their performance was at least equivalent to the equipment supplied under the 'administrative solution'.

It goes without saying that the Commission will not hesitate to introduce another manufacturing process if the old one no longer meets requirements.

SECTION 7: EXCEPTIONAL AID

7.7. It is true that certain consignments of fertilizer (18 000 tonnes and not 12 000 tonnes) could not be transported within the short time limits. Difficulties concerning the delay in unloading the products arose between the supplier, the shipper and the recipient country but have not, to date, given rise to any legal action by the supplier.

The two cases referred to concern exceptional aid to two ACP countries. As far as one of these countries is concerned, a request was sent by this country to the Community following the two cyclones. Rather than make new funds available to the country, the Commission decided to use the funds remaining from previous exceptional aid (approximately 30 000 EUA). In the case of the other country, the Commission decided on exceptional aid in the form of school-building for the nomads as a part of the settlement programme. In view of the difficulties encountered in implementing this project, this country's Government has requested that the unused appropriations be allocated to fishing communities largely composed of resettled nomads (under the abovementioned programme). This application is now being examined.

7.8. In nine cases Community aid covered the supply of goods the proceeds from the sale of which were to be paid into a special account for the execution of development projects or the establishment of emergency reserves. In half the cases reports have been submitted and an inspection carried out by the Commission.

SECTION 8: STABILIZATION OF EXPORT EARNINGS

8.5. It is true that iron ore is an unusual item to be covered by the Stabex system, which was developed solely to offset fluctuations in the production and marketing of agricultural products.

The Community has always been aware of the difficulties arising from the inclusion of a mining product in the system, and indeed this is expressed in the Community declaration appended to Article 17 of the Lomé Convention. Furthermore, the arrangements in the new Convention for the other mining products are totally different from those in the Stabex system.

8.7. The Commission understands this comment to be referring to the retrospective nature of the system. Because of this, it is quite possible that such delays should occur. They may even be longer and the brackets wider.

The most important aspect of the overall management is the time between the submission of the transfer request and actual payment. The following information on this time-lag may be of use:

Implementation year (1)	Average time in months—straightforward cases (2)	Cases of type (2) as a percentage of all the year's transfers (3)	Average time-lag for all transfers [1] (4)
1975	3	89·5	4
1976	2·5	44·0	3
1977	4	49·0	8
1978 (estimate)	2·5	75·0	4·5

[1] Clearly, if a transfer request requires statistical research or consultations under Article 19 (4), the requesting ACP State and the Commission will require further time for investigation if the system is to work efficiently.

8.10. On the subject of cross-checking, the Commission refers to the answers it gave to point 74 in Chapter 7 of the Court's report for 1977.

When negotiating the new Convention, the Commission was anxious to introduce an automatic cross-checking system by ensuring that the statistics used for the implementation of the system were those given by multiplying the unit values of the exports of the ACP State concerned, as given in the statistics of that ACP State, by the quantities imported by the Community, as given in Community statistics. However, it resulted from negotiations that this formula could not be accepted as the only solution to the problem.

Thus throughout the period of validity of the new Convention, the requesting ACP State, when it submits its request, will choose between the system provided for by the Lomé Convention and the abovementioned formula.

It is true that the actual amount of the transfer may be higher than, equal to or lower than the amount originally requested by the ACP State once it has been converted from EUA into the State's local currency. However, as all the elements of the system affect the calculation of a transfer, it is impossible to identify the precise effect on the final amount of each one of these elements.

If, for example, figures from the ACP State are used as the basis for calculating the transfer, the cross-checking and the cif/fob factor are immaterial and any discrepancy in amounts is due entirely to the effect of monetary operations and — where applicable — a reduction under Article 19 (4) (b). The situation is more complicated if figures agreed with the ACP State during cross-checking partially or completely reflect the EEC import figures. In such a case, the solution to the problem of cross-checking and cif/fob factors would have more impact and produce the result mentioned by the Court (1).

In any event, there is no indication that cross-checking and the determination of the cif/fob factor have any more impact than currency conversion.

Lastly, as Stabex operations are expressed in EUA, as laid down in the Convention, the amounts in the national currencies of the ACP States shown on transfer request forms are of value only in showing whether the thresholds of dependence and fluctuation have been crossed.

It is essential to use national currency for this, in fact, because — apart from those countries benefiting from the derogation in Article 17 (4) — the EUA concept is inapplicable for an ACP State as a means of measuring its exports to non-Community countries.

In the second subparagraph of this point, the Court is referring to a practice followed by the Commission's departments in the case of successive transers for the same product, namely keeping to the cross-checking formula adopted for the first transfer. This means that if, for example, it was decided to use the straight EEC figures (or the straight ACP figures, or any other formula) for cross-checking the first transfer, figures for a subsequent implementation year will be cross-checked in the same way, without amending the formula originally adopted. The Commission considers that this continuity arrangement is in keeping with the Stabex system which requires rapid transfers carried out as automatically as possible.

There is one exception to this procedure however: so as to avoid following it blindly, it only applies 'if no new information comes to light'. If, for example, the Commission's departments discover that the operation of the statistical departments of an ACP State gives serious cause for concern, the Commission will not accept the export figure returned by that Member State at its face value if the method used for the initial cross-checking was to base calculations on the ACP figures.

To conclude, therefore, the Commission considers that it is wrong to say that there is no cross-checking in the case of successive transfers. The Commission fulfils all its cross-checking obligations: however, to date, there have only been rare cases where 'new information' was felt to be sufficiently important to justify the use of a different cross-checking arrangement to that originally adopted. Any disagreement between the Court and the Commission on this matter can only be due to slightly different interpretations of the meaning of 'new information'.

8.11. With regard to the Council's recommendation to the Commission of 30 October 1978, the Commission stated that it was willing, as far as its capabilities and resources allowed, 'to draw up cross-checking reports:

(i) for all cases in which, for the implementation years 1978 and 1979, there are grounds for cross-checking, i.e. when the transfer requests in question concern situations for which the Commission does not yet have cross-checked figures;

(ii) and for cases in which the bases for cross-checking are not Community import statistics'.

8.12. The departments responsible for managing the system are well aware that in almost all ACP States, there are at least two different sources drawing up different figures which at first sight seem to refer to the same trade flows. However, these sources are always found to be using very different methods, a fact which explains the Court's findings (2).

The Commission's departments have investigated the available sources on the spot and in each case have selected on its relative merits the source which seemed the most suitable and reliable.

(1) See the Commission's answers to the Court's 1977 report regarding cross-checking and the cif/fob factor.

(2) In theory, there are two main methods: one is based on information provided by the exporters and records exports as products physically leave the country, the other records exports when payments for past exports arrive in the country.

8.13. The Agreement relating to the transfer mentioned ran as follows:

— date of transfer proposal:	21 April 1976,
— date of Commission decision:	6 July 1976,
— date of signature of Agreements:	8 July 1976,
— date of payment order:	28 July 1976,
— date of payment:	9 August 1976.

The revised figures for 1975 were sent on 15 July 1976 and received by the Commission's departments on 23 July 1976.

However, by this time the Commission had already made its decision and the Transfer Agreement had been signed. The Commission's departments have already explained why it did not seem worth revoking the transfers already decided upon (cases would have had to be reopened every time the statistics used were revised, since they were considered to be the best available at the time the decision was taken).

The Commission would refer to its answer to point 80 of Chapter 7 of the Court's report for 1977.

The Lomé Convention does however clearly state that 'the Commission shall, in conjunction with the requesting ACP State, draw up a draft decision to make a transfer' (Article 19 (5)), and 'for each transfer a "Transfer Agreement" shall be drawn up and concluded between the Commission and the ACP State concerned' (Article 22). In the Commission's opinion, it is quite clear that each transfer request should result in one single, properly-agreed, fixed amount. Any other approach would cause delays which would contravene Article 19 (6) of the Convention and the spirit of the Court's remark on point 8.7.

8.14. The Commission's departments do not normally require certificates of origin to be submitted when investigating a transfer request [1].

The guarantees the Commission has are:

(i) the signature of a high official or a minister in the ACP State on the transfer request form which contains the clause referred to by the Court. By signing this form, the signatory assumes responsibility not only for the accuracy of the figures but also for ensuring that Article 17 (5) of the Convention is complied with;

(ii) knowledge of the economy and production capacity of the requesting ACP State.

8.15. It is true that a rate of 97·3980271 was used instead of the rate of 97·7083. The reason for this error, which had very little effect, is that the programmes intended to process the transfers of countries covered by the provisions of Article 17 (4) had still not been drawn up and that the rate used was obtained by combining several other rates.

8.16. The answer to the Court's question in the third subparagraph is given by the correct statement of the facts in the second subparagraph of the same point.

8.20. It is clear that the amounts to be repaid to this system for the reconstitution of each transfer can only be determined from the statistical information on the basis of which the transfer was calculated as in the case of successive transfers (see paragraph 8.10).

Any other procedure would be bound to create distortions since a debt can only be calculated on the basis of the facts which gave rise to that debt.

Consequently, the reference in Article 21 (3) to the rules laid down in Article 17 (1) can only refer to the result of the cross-checking which was carried out before the transfer and not the cross-checking on which any repayment has to be based.

8.22. It is true that in almost all cases where a transfer which should have been reconstituted is not, this is due to the fact that the second condition in Article 21 (3) is not met. In fact, world inflation inflates unit values to a level which is always higher than the average unit values during the reference period while the economies of the EEC Member States may not always be strong enough to absorb extra quantities in those same years.

However, if in these circumstances the Commission's departments notice a considerable increase in exports of the product concerned to all other destinations — which would have enabled the ACP State to export greater quantities to the EEC and thus to fulfil the second condition of reconstitution — the Commission

[1] However, in one case where the Commission's departments had some doubts as to whether Article 17 (5) of the Convention was being respected, they asked for certificates to be submitted. The ACP State complied with this request to their complete satisfaction.

does not feel that it can accuse the ACP State of fabrication in order to obtain reconstitution as it has no control over the situation.

It is a different matter in the case mentioned by the Court where the ACP State tries to avoid meeting the conditions for reconstitution by a deliberate policy. Firstly, it should be made clear that the Commission does not have sufficient information to prove that these policies exist, and secondly, even if it were possible to prove such conduct, the Commission would not feel it could apply Article 19 (4) (b) as this only covers transfers. This omission from the Lomé Convention was remedied in negotiations for the new Convention by stipulating that the same rules apply to reconstitution as to transfer requests.

8.23. This is correct. Even though in practice this detail is not particularly important, the Commission does try to harmonize deadlines in the different documents when drafting new Agreements, since the new Convention came into force.

SECTION 9: INDUSTRIAL COOPERATION

Just as last year in its comments on the Court of Auditors' report on 1977, the Commission makes no comments on the part of the report relating to the managment of the Centre for Industrial Cooperation. This is a joint ACP/EEC body and there are two auditors responsible for inspecting its accounts. One of these belong to the Communities' Court of Auditors.

In order to avoid duplication, the Commission will leave it to these experts to make their comments. These will be examined shortly by the bodies responsible for ACP in the Communities and by the responsible ACP/EEC bodies.

ANNEX V

THE COURT OF JUSTICE

Replies to the comments of the Court of Auditors concerning the financial year 1978

8.5. **Travel expenses**

It is hardly possible to make an accurate estimate of the appropriations for travel expenses especially in respect of travel by members of the Court.

Indeed the number of meetings and gatherings which the Court is invited to attend varies from year to year and never follows any regular and foreseeable pattern.

One official outside engagement by the Court absorbs some 20 % of the appropriations.

8.47. **Classification of supporting documents**

It is to be noted that, since the financial year 1978, the Court of Justice has classified vouchers by title and chapter. A further distinction according to articles and items of the budget is not justified because of the very small number of vouchers classifiable under each sub-division.

8.51. **Audit of the administrative structures**

On a proposal by the Registrar the Court plans or adapts the organization of its services. The creation of an organization and methods branch is not justified having regard to the size of the institution. The Court is however willing to take part in an overall comparative study of the use of staff.

8.56. **Extra-budgetary undertakings**

The Court of Justice accepts the proposal made under paragraph 8.56.

9.3. **Matters arising from previous years**

Hitherto the Court has interpreted the provisions of Article 19 of the Financial Regulation on the appointment of a financial controller as not requiring the appointment of an individual to this office but rather the adaptation of its accounting service in such a way as to ensure effective control. There is no doubt that such control is exercised.

9.9.

Table 62. Payments in Title 2 concerning 1977 obligations charged against 1978 appropriations

It is to be noted that the payments mainly concerned relate to supplies only consumed or used during the financial year 1978 and also certain current expenditure or provision of services regularly recurring in December.

This practice has been followed each year and it allowed the carry-forward of appropriations from one year to the next to be kept to the very minimum.

Having regard to the comment of the Court of Auditors, the Court of Justice will not omit to modify the procedure followed hitherto in this matter.

Table 63: Commitments in Title 2 approved by the financial controller after measures which raised expenditure were taken

Because of our limited automation equipment we have experienced great technical difficulties in introducing the EUA into our budget accounts. Our system had to be completely recast and as a result certain procedures relating to current expenditure for the month of January were held over for a fortnight with the prior approval of the authorizing officer.

9.22. **Expenditure on entertainment and representation allowances and expenses**

In 1978 the expenditure charged to Item 2401 includes two working lunches attended only by officials of the Court of Justice and of ther institutions. This expenditure amounted to 97·2 EUA for nine people.

ANNEX VI

THE ECONOMIC AND SOCIAL COMMITTEE

Replies to the comments of the Court of Auditors concerning the financial year 1978

1.4. The Committee agrees with the Court of Auditors that a Regulation implementing the European unit of account should be adopted as soon as possible.

1.22. Application of the rules for implementing the Financial Regulation of 21 December 1977 would facilitate certain tasks.

8.10 to 8.13. Whilst, in some particular instances, mission expenses were cleared late, as a general rule mission expenses are cleared within a reasonable period.

As a result of the Court of Auditors' comment, the Committee has just taken steps with an eye to accelerating such clearance.

8.18 to 8.21. In this particular instance, the Committee opted for the most economical formula, viz. a group ticket. The saving thereby made was more than Bfrs 9 000 per head. Obviously, opting for this solution always involves a risk that one or more of the group will ultimately be unable, for any of a variety of reasons, to make the whole journey with the rest of the party.

There is no questioning, moreover, that an official on mission is on duty from the time he leaves to the time he returns to his place of work. The institution should therefore pay his travel expenses and there can be no question of a private return journey.

We absolutely agree that the wording of Decision No 1990/78 could have caused confusion in that the original text (English) uses the expression 'private business'. In context, this expression does not refer to the return trip but to the purpose of the stay in London. Indeed, this is why the Committee refused to pay the Brussels/London leg of the journey.

The person concerned respected all the relevant rules of the Staff Regulations. He ended his mission earlier than the rest of the party with the agreement of the Committee authorities and was therefore entitled to return to his place of work (see general implementing provisions, Decision No 284/73A). The reasons for granting such authorization were perfectly sound — the person concerned had a political appointment to keep in connection with the pre-election campaign for the European Parliament. Had he waited to return with the rest of the group he would have been unable to attend an important meeting. The Committee has no doubt that it took a proper decision and abided by the relevant administrative and financial rules.

8.22. This comment seems to refer to a mission carried out by a former senior official who, at that time, did not have to apply for advance authorization to go on mission. The Committee has taken steps to make sure that, henceforward, the documents are drawn up and submitted to the chairman for approval.

8.23. The question here was one of assisting the committee chairman at certain meetings which had been fixed to suit the convenience of all those taking part. This being so, mission expenses were less high because the person concerned stopped over at the place visited during the weekend.

8.24 and 8.25. The advances authorized were high because they were intended to cover not only personal expenses but also other operational outgoings whose extent could not easily be estimated in advance. It would obviously have been better to have distinguished between these two sorts of advance in order to avoid confusion. Instructions have been given to this effect.

The delay in the clearing of the expenses involved in this mission to Africa was due to the late submission of the vital account of the ECA and to a laborious correspondence with several hotels which the Committee had asked for detailed supporting documents.

8.26. During the mission to Rome (which was of a single day's duration), the official concerned had to go to different places including one 10 km outside the city, something which was unforeseeable at the time the mission order was drawn up. He therefore had to use a taxi (cost Lit 3 100 (Bfrs 115)), and this enabled him to limit the mission to a single day.

8.42 to 8.44. After considerable thought, the heads of administration extended the concept of international organization to cover private international organizations. The idea was to avoid making a distinction between persons living away from their countries of origin and employed by public international organizations and similar persons employed by private international organizations. As things stand, we would find it difficult to abandon the present administrative practice in the absence of a change in the Regulations.

8.47. The Committee understands the difficulties of the departments of the Court of Auditors and will do its utmost to classify supporting documents in a way that meets the Court's working requirements. It should be pointed out that the Committee's existing system has satisfied all the authorities concerned — authorizing officers, financial controllers, accountants.

8.50 and 8.51. The Committee was interested to read the Court's comments on departmental organization and working methods. But it is difficult for small institutions to have a department like the one at the Commission which acts as internal adviser to the organization and helps to improve working methods.

At the Economic and Social Committee, this task falls to the bureau under the last paragraph of Article 56 of the Rules of Procedure:

> 'The bureau, acting on a proposal from the Secretary-General, shall organize the General Secretariat in such a way that it can ensure the efficient functioning of the Committee and its constituent bodies, and help the members in the performance of their duties.'

In addition, the bureau has set up an internal budget group which is responsible for maintaining constant supervision over the financial management, organization and running of the Secretariat.

8.54 to 8.56. The Committee agrees with the Court of Auditors that a legal, financial and accounting framework should be laid down for non-budget resources. The Committee will endeavour to lay down guidelines for the areas referred to by the Court.

9.7 to 9.10. The Committee will take steps to take account of the comments of the Court and is gratified that the Court intends to examine possible solutions with the institutions in view of the real difficulties which are posed by strict application of the Financial Regulation.

9.15. For several years, the Committee has applied rules to staff members eligible for payments under Item 2401. These rules will be supplemented by additional criteria.

9.23. At its 20th anniversary celebrations, the Committee distributed 32 medals namely:

— 11 to those members whose membership dated back to 1958,

— 5 to officials who had completed 20 years' service,

— 16 medals to various personalities, such as presidents of the other institutions and former chairmen of the Economic and Social Committee.

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